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GAAP 2015

Clear vision

UK GAAP in your pocket
– A guide to FRS 102



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Foreword

2015 is the year when the long-awaited full implementation of the new UK financial reporting standards finally comes to fruition after years of deliberation and discussion. The time for preparation is over. It is now time to put it all into practice.

And this book is the place to start. It is a potted summary of the key requirements of each section of the new standard, and highlights key differences compared to both old UK GAAP and EU-adopted IFRSs.

The effective date for implementation was 1 January 2015. All companies currently on old UK GAAP will be preparing new GAAP information for periods beginning after the effective date. There is no excuse for not getting down to it now. And though the financial instruments content was finalised only in July 2014, the flexible transition provisions around the new hedge accounting requirements mean that entities still have some time to consider their options in this area.

It is also a time to celebrate the simplicity of having a single comprehensive standard weighing in at less than 360 pages. There may be some editorial corrections and limited scope amendments to come but the next full review of FRS 102 will not be until 2018. So companies have a clear run now.

As for the lingering past, the old FRSSE is still in force until 2016 but after that it will be withdrawn and smaller entities will have to apply FRS 102, but with reduced disclosures. It is important for those affected to work towards that now.

And that is what this publication is all about. In a nutshell it provides a handy reference for you in this potentially transformative year.

Veronica Poole

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Deloitte LLP

About this publication

Focusing on the replacement for old UK GAAP, FRS 102, this pocket guide summarises the requirements of each section of the standard and highlights key differences compared to both old UK GAAP and EU-adopted IFRSs effective for periods beginning on/after 1 January 2015.

Specific requirements on the application of FRS 102 to public benefit entities (PBEs) are distinguished by use of an asterisk (*).

Further Deloitte resources can be found at
<http://www.ukaccountingplus.co.uk>

Access to the Financial Reporting Standards

The suite of standards, together with other supporting resources can be downloaded free from <http://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Standards-in-Issue.aspx>.

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Abbreviations

AC	Accounting Council (previously the Accounting Standards Board, 'ASB')
CGU	Cash-generating unit
EBT	Employee benefit trust
ESOP	Employee share ownership plan
FRC	Financial Reporting Council
FRS	Financial Reporting Standard issued by the FRC
FRSSE	Financial Reporting Standard for Small Entities
FVTPL	Fair Value through Profit or Loss
GAAP	Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
IASCF	IASC Foundation (parent body of the IASB)
IFRIC	Interpretations issued by IFRSIC
IFRSIC	International Financial Reporting Standards Interpretations Committee of the IASB
IFRS(s)	International Financial Reporting Standard(s)
NCI	Non-controlling interest
PBE	Public benefit entity
P&L	Profit and loss account
PPE	Property, plant and equipment
SME(s)	Small and medium-sized entity(ies)
SOCE	Statement of Changes in Equity
SOCI	Statement of Comprehensive Income
SSAP	Statement of Standard Accounting Practice, issued by the Accounting Standards Committee (ASC) and adopted and amended by the ASB
STRGL	Statement of Recognised Gains and Losses

References to the "Accounting Regulations" are to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). References to the "LLP Regulations" are to the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913).

Introduction to Financial Reporting Standards 100-102

Since 2005, listed groups in the UK have been required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs). Almost all other groups and companies have a choice. They can choose to follow IFRSs or UK GAAP. Small companies (as defined by the Companies Act 2006) have an additional option of following the Financial Reporting Standard for Smaller Entities (FRSSE). But, for periods beginning on or after 1 January 2015, three new Financial Reporting Standards (FRS 100, 101 and 102) are in force, bringing with them a number of new options for all UK entities and groups.

These FRSs were developed by the Financial Reporting Council (FRC) to replace old UK GAAP (other than the FRSSE, which will be retained until 2016) and introduce an IFRS-based reduced disclosure framework for certain entities.

FRS 100 “Application of Financial Reporting Requirements” sets out rules and guidance on how to select the appropriate accounting framework for a particular entity or group.

FRS 101 “Reduced Disclosure Framework” introduces a reduced disclosure framework enabling most subsidiaries and parents to use the recognition and measurement bases of IFRSs in their individual entity financial statements, while being exempt from a number of disclosures required by full IFRSs.

FRS 102 “The Financial Reporting Standard Applicable in the UK and Republic of Ireland” is the ‘main’ standard which replaces old UK GAAP. It also includes disclosure exemptions for certain qualifying entities.

The FRC has also issued **FRS 103 “Insurance Contracts”**, which is applicable to entities that have chosen to apply FRS 102. It is relevant for entities that have insurance contracts and discretionary participation features and are applying FRS 102. FRS 103 consolidates existing guidance included within the International Accounting Standard Board’s (IASB’s) IFRS 4 *Insurance Contracts*, the existing requirements of FRS 27 *Life Assurance* and elements of the Association of British Insurers’ Statement of Recommended Practice on Accounting for Insurance Business (ABI SORP).

The detailed accounting provisions within FRS 102 are broadly consistent with the IFRS for SMEs, which was issued by the IASB back in July 2009. There are, however, some key differences. Some of these were made by the FRC to retain options available under old UK GAAP that were popular with preparers and users (e.g. the option to revalue fixed assets). Certain topics in full IFRSs have been added by means of cross-reference (e.g. earnings per share and segmental reporting) because the scope of FRS 102 extends to some entities with public accountability. Accounting requirements for public benefit entities (PBEs) are included in the standard, and other changes have also been made in order to comply with company law.

FRS 102 provides a comprehensive single Financial Reporting Standard which covers a broad range of entities in the UK and Ireland. In July 2014, the FRC published limited amendments to FRS 102 in respect of the definition of basic financial instruments and hedge accounting. The amendments come into effect on the same date as FRS 102 becomes effective, i.e. 1 January 2015. The first full review of FRS 102 is expected to take place in 2018.

Groups that are currently required to apply full IFRSs as adopted in the EU will continue to be required to apply full IFRSs. For listed groups this is a requirement of EU law, while AIM groups are required by the AIM Rules to apply full IFRSs.

The FRSE will continue to be available for small companies in the UK until 2016, when the new EU Accounting Directive must be implemented into UK law. This change in law will bring about a number of changes for small companies, including an increase in size thresholds and simplified disclosure and presentation requirements. As a result, the FRC proposes to withdraw the FRSE from 2016. Instead, small companies will apply FRS 102 with reduced disclosure and presentation requirements.

So the new UK standards affect those companies previously required or choosing to use old UK GAAP, as well as those entities that have voluntarily adopted IFRSs. These entities include:

- listed parent companies preparing individual financial statements;
- subsidiaries within listed groups preparing individual financial statements;
- all private groups and companies, except those which qualify as small as defined in company law;
- many entities other than companies; for example, charities, which cannot currently apply IFRSs as a matter of law; and
- for periods beginning on or after 1 January 2016, companies that qualify as small under UK company law.

This publication focuses on the replacement for old UK GAAP, FRS 102, which was issued by the Financial Reporting Council in 2013. Like FRS 102, the guide is structured by topic, each of which is presented in a separate section. The requirements within FRS 102 are summarised and then contrasted with old UK GAAP and EU-adopted IFRSs which are effective for periods beginning on/after 1 January 2015.

Section 1. Scope

FRS 102 is available for use by UK unlisted groups and listed or unlisted individual entities preparing financial statements that are intended to give a true and fair view. In other words, it may be applied by any entity that is not required to apply full EU-adopted IFRSs.

Entities that are required or choose to disclose earnings per share and/or segment information in their financial statements should also apply IAS 33 *Earnings per Share* and/or IFRS 8 *Operating Segments* respectively.

Qualifying entities (as defined in the Glossary to FRS 102 – see below) can take advantage of certain disclosure exemptions which are set out in this section. These exemptions are available if certain requirements are met:

- the company must be a qualifying entity (see below);
- the shareholders of the company must have been notified in writing and make no objection to use of the exemption; and
- the entity must disclose in its financial statements:
 - a brief narrative summary of the exemptions adopted;
 - the name of the parent in whose group financial statements it is consolidated; and
 - from where those group financial statements may be obtained.

Qualifying entity

A qualifying entity is a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation. FRS 101 explicitly states that a charity may not be a qualifying entity. FRS 102 contains no such exclusion.

A qualifying entity need not be a subsidiary; a parent company preparing separate financial statements (which may be presented alongside the consolidated financial statements) may also be eligible for the reduced disclosure in respect of those separate financial statements.

The key exemptions are as follows:

- presentation of a reconciliation of shares outstanding in the period (Section 4);
- preparation of a cash-flow statement and related notes (Section 7);
- financial instruments-related disclosures (Sections 11 & 12)^{†‡};
- certain share-based payment disclosures (Section 26)[†]; and
- key management personnel compensation disclosures (Section 33).

[†] This symbol indicates those exemptions which are only available provided that equivalent disclosures are made in the consolidated financial statements in which the entity is consolidated. Guidance around the concept of equivalence is included in the Application Guidance to FRS 100.

[‡] Financial institutions must still make the disclosures around financial instruments.

FRS 102 is effective for accounting periods beginning on or after 1 January 2015. Early application is permitted for accounting periods ending on or after 31 December 2012.

**Key conversion
issues from
old UK GAAP**

- Qualifying entities will wish to consider taking the available disclosure exemptions under FRS 102 as discussed above.

Section 2. Concepts and Pervasive Principles

Scope

Describes the objective of financial statements, which is to provide useful information about the entity's financial position, performance and cash flows, and sets out the concepts and underlying principles of preparation.

Summary of FRS 102

- Identifies the qualitative characteristics underlying the financial statements.
- Requires financial statements, excluding cash flow information, to be prepared using the accrual basis of accounting.
- Describes financial position as the relationship between assets, liabilities and equity.
- Describes performance as the relationship between income and expenses. Income encompasses both revenue and gains, whereas expenses include both expenses and losses.
- Defines basic elements of financial statements as well as the concepts for recognition and measurement.
- Identifies the limited circumstances in which assets and liabilities, or income and expenses can be offset.

Full EU-IFRS requirements

- Similar concepts but IAS 1 contains additional concepts of capital and capital maintenance.

Key conversion issues from old UK GAAP

- Similar concepts in old UK GAAP should lead to minimal general impact on conversion.

Section 3. Financial Statement Presentation

Scope

- Explains fair presentation, what a complete set of financial statements is and what compliance with FRS 102 requires.

Summary of FRS 102

- The fundamental principles for the preparation of financial statements that result in the faithful representation of transactions, other events and conditions, are:
 - the going concern assumption;
 - consistency of presentation;
 - comparability; and
 - materiality.
- *Public benefit entities (PBEs) must make an explicit and unreserved statement that they are PBEs.
- Financial statements that comply with FRS 102 should include an explicit and unreserved statement of compliance. In extremely rare circumstances, when departure is required to maintain fair presentation, additional disclosures have to be provided.
- Financial statements are prepared at least annually. When the end of the reporting period changes so that financial statements are presented for a period other than a year, additional disclosures are required.
- A complete set of financial statements includes each of the following for the current period and the previous comparable period:
 - a balance sheet;
 - either a single statement of comprehensive income or a profit and loss account and a separate statement of comprehensive income;
 - a statement of changes in equity;
 - a statement of cash flows; and
 - notes to the financial statements.

- A combined statement of income and retained earnings can be presented instead of the separate statements of comprehensive income and changes in equity, if the only changes to equity arise from profit or loss, dividend payments, corrections of errors, and changes in accounting policies.
- Each primary statement should be presented with equal prominence to the others.
- Entities may use titles and formats for the primary statements other than those given in the standard, as long as they are not misleading (but see specific format requirements in Sections 4 and 5).
- The financial statements and notes should be clearly identified and distinguished from any other accompanying information.
- If preparing interim financial reports, the basis for preparing and presenting such information should be disclosed.

Full EU-IFRS requirements

- Requires the presentation of a statement of financial position ('third balance sheet') at the beginning of the preceding period when an accounting policy is applied retrospectively or a retrospective restatement or reclassification of items is made in the financial statements, to the extent that opening balances are materially affected.
- Does not permit the combination of the statement of comprehensive income and statement of changes in equity under any circumstances.

Key conversion issues from old UK GAAP

- Statement of changes in equity is presented as a primary statement, compared to the reconciliation of movements in shareholders' funds in the notes under UK GAAP.
- Statement of Recognised Gains and Losses (STRGL) replaced by Statement of Comprehensive Income (SOCI).
- *New requirement for PBEs to state that they are PBEs.

Section 4. Statement of Financial Position

Scope

- Sets out the information that is to be presented in the statement of financial position and the format to be used.

Summary of FRS 102

- The statement of financial position (balance sheet) should be presented in accordance with the relevant part of the Accounting Regulations (or LLP Regulations as appropriate).
- This applies to all entities whether or not they report under the Companies Act 2006, although entities not subject to the Act need only comply to the extent permitted by any statutory framework under which they report.
- Specifies additional information that can be presented either in the statement of financial position or in the notes, including disclosure of assets or disposal groups where there is a binding agreement to sell.
- Qualifying entities can take an exemption from the requirement to present a reconciliation of shares outstanding in the period.

Full EU-IFRS requirements

- IAS 1 *Presentation of Financial Statements* requires use of specified line items in the balance sheet.
- Requires the separate presentation of assets classified as held for sale or assets and liabilities included in a disposal group held for sale.

Key conversion issues from old UK GAAP

- Balance sheet appearance is unlikely to change, although no longer required to present any pension liability separately on the face of the balance sheet.

Section 5. Statement of Comprehensive Income and Income Statement

Scope

- Sets out the requirements for presenting total comprehensive income in compliance with this standard and with the Companies Act 2006.

Summary of FRS 102

- Requires the presentation of total comprehensive income either in:
 - a single statement of comprehensive income; or
 - a separate profit and loss account and a separate statement of comprehensive income which presents all items recognised outside profit or loss.
- In each case, entities are required to present the items that are required in a profit and loss account in accordance with the relevant part of the Accounting Regulations (or LLP Regulations as appropriate).
- Further items should be presented as other comprehensive income, either net of tax or before tax with a single line showing the aggregate tax effect.
- Discontinued operations must be presented as a separate column, line-by-line on the face of the statement, and an appendix is included in Section 5 of FRS 102 to illustrate this.
- A discontinued operation is defined as a component of an entity that has been disposed of and:
 - represented a separate major line of business or geographical area of operations;
 - was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
 - was a subsidiary acquired exclusively with a view to resale.

- FRS 102 does not require disclosure of 'operating profit'.
- If an entity elects to disclose the results of operating activities, the amount disclosed should be representative of activities that would be regarded as 'operating'.
- Analysis of expenses recognised in profit or loss may be presented by nature (such as depreciation, salaries, purchase of materials) or function (such as cost of goods sold, administrative expenses).

Full EU-IFRS requirements

- IAS 1 requires use of specified line items in the income statement and statement of comprehensive income.
- More items of comprehensive income recognised outside of profit or loss can arise (e.g. changes in fair value of available-for-sale financial assets).
- Includes items that are held for sale within the definition of a discontinued operation.
- Only requires disclosure on the face of a single amount in respect of discontinued operations; line by line analysis may be given in the notes.

Key conversion issues from old UK GAAP

- New terminology, but similar to P&L account and STRGL, with option to present as two statements or one combined statement.
- Discontinued operations presented as a separate column, and for every line item, on the face of the statement.
- Change in definition of discontinued operations under FRS 102 may result in need to reassess operations presented as discontinued.
- No requirement for a note of historical cost profits and losses.
- No requirement to present a sub-total for operating profit although FRS 102 does impose some restrictions if such a sub-total is presented.

Section 6. Statement of Changes in Equity and Statement of Income and Retained Earnings

Scope

- Describes the requirements for the presentation of changes in an entity's equity for a period.

Summary of FRS 102

- Requires the statement of changes in equity (SOCE) to present all changes in equity, including:
 - total comprehensive income for the period;
 - the effects of changes in accounting policies and correction of errors; and
 - a reconciliation between the opening and closing balance of each component of equity, separately disclosing changes resulting from:
 - profit or loss;
 - other comprehensive income; and
 - transactions with owners in their capacity as owners, e.g. dividends, treasury share transactions, changes in ownership interest etc.
- If the only changes in equity arise from profit or loss, dividends, changes in accounting policies or the correction of errors, a combined statement of income and retained earnings may be presented instead.

Full EU-IFRS requirements

- Does not allow the SOCE to be combined with the statement of comprehensive income.
- Requires more disclosure on dividends and the related amount per share.

Key conversion issues from old UK GAAP

- No significant change to UK statement of movements in equity, although comparatives now required.
- Additional option to combine with P&L account to show retained profits brought/carried forward where STRGL/equity items are limited to dividends, changes in accounting policies and corrections of errors.

Section 7. Statement of Cash Flows

Scope

- Specifies the information on the changes in cash and cash equivalents to be presented in the statement of cash flows.
- Does not apply to mutual life assurance companies, retirement benefit plans or investment funds that meet certain conditions.
- Qualifying entities may take complete exemption from the requirements of this section.

Summary of FRS 102

- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
- Cash flows are presented separately for operating, investing and financing activities.
- Cash flows from operating activities can be presented using the direct or indirect method.
- Cash flows meeting certain conditions may be reported net.
- Cash flows arising from foreign currency transactions are translated at the exchange rate on the date of the cash flow, or at an approximation thereof (e.g. a weighted average rate for the period).
- Cash flows from interest and dividends received should be consistently classified as either operating or investing activities.
- Cash flows from interest and dividends paid should be consistently classified as either operating or financing activities.
- Cash flows arising from income tax are classified as operating cash flows unless they can be specifically identified with financing or investing activities.
- Investing and financing transactions that do not require the use of cash are excluded from the statement of cash flows but must be disclosed separately.

- Requires a reconciliation between the amounts of cash and cash equivalents and the amounts disclosed in the statement of financial position, if they are not the same.
- Restricted cash must be disclosed.

Full EU-IFRS requirements

- The direct method for presenting cash flows from operating activities is encouraged in preference to the indirect method.
- Only cash flows that result in a recognised asset in the balance sheet are eligible for classification as investing activities.
- Specific guidance on accounting for cash flows arising from changes in ownership interests in subsidiaries and other businesses.
- No exemption from presenting a cash flow statement.

Key conversion issues from old UK GAAP

- For groups and entities other than qualifying entities a cash flow statement will be required – there is no ‘small company’ exemption.
- Definition of cash is broader than under FRS 1 *Cash Flow Statements* (24 hour criterion does not apply).
- ‘Cash equivalents’ will be included in the cash flow statement.
- No explicit guidance on disclosure of cash flows as net or gross of sales taxes (e.g. VAT).
- Only three classifications under FRS 102 – operating, investing and financing – compared to the more granular approach of nine classifications in FRS 1.

Section 8. Notes to the Financial Statements

Scope

- Describes the principles underlying the information that is to be presented in the notes to the financial statements.

Summary of FRS 102

- Requires systematic presentation of information not presented elsewhere in the financial statements in, as well as information on the:
 - basis of preparation;
 - specific accounting policies;
 - judgements made in applying the accounting policies; and
 - key sources of estimation uncertainty.

Full EU-IFRS requirements

- Contains significantly more detailed guidance on the sort of assumptions and estimates that should be disclosed.

Key conversion issues from old UK GAAP

- Disclosure of critical judgements and key sources of estimation uncertainty will be required.

Section 9. Consolidated and Separate Financial Statements

Scope

- Defines the circumstances in which consolidated financial statements are presented and the procedures for preparing those statements.
- Provides guidance on separate financial statements.
- Provides guidance on intermediate payment arrangements.

Summary of FRS 102

- Consolidated financial statements present financial information about a group (parent and subsidiaries) as a single economic entity.
- A subsidiary is an entity controlled by another entity (the parent) including special purpose entities. Control is the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities.
- Control is presumed to exist where the parent owns (directly or indirectly) more than half of the voting power of an entity.
- Exemptions from consolidation are available:
 - as permitted by the Companies Act 2006 (s400, s401, s384); or
 - if not reporting under the Act, if the entity's statutory framework does not require the preparation of consolidated financial statements.
- A subsidiary is not excluded from consolidation simply because:
 - the business activities of the subsidiary are dissimilar to those of other group entities; or
 - the information necessary for preparing consolidated financial statements cannot be obtained without disproportionate expense or undue delay, unless the subsidiary is immaterial for the purposes of giving a true and fair view in the context of the group.

- A subsidiary is required to be excluded from consolidation where:
 - severe long-term restrictions substantially hinder the exercise of the rights of the parent over the assets or management of the subsidiary; or
 - the interest in the subsidiary is held exclusively with a view to subsequent resale and the subsidiary has not been consolidated previously under FRS 102.
- Most subsidiaries excluded from consolidation are measured at cost less impairment, fair value through OCI or FVTPL (accounting policy choice).
- Subsidiaries that are held as part of an investment portfolio are not consolidated and must be measured at FVTPL:
 - a subsidiary is held as part of an investment portfolio if its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a medium through which the investor carries out business.
- All entities in the group must use the same reporting date unless impracticable, in which case the consolidated financial statements are made up either:
 - from the subsidiary's last financial statements, which must be made up to no more than three months before the parent's year-end and adjusted for any significant transactions in that time; or
 - from interim financial statements prepared by the subsidiary as at the parent's reporting date.
- Uniform accounting policies must be used in preparing the consolidated financial statements.

- Where control is achieved in stages (e.g. when an associate becomes a subsidiary), the existing interest held is not remeasured to fair value at the date on which control is gained.
- On loss of control, a gain/loss on disposal of the subsidiary is recognised, calculated as the difference between the proceeds on disposal and the disposed proportion of the subsidiary's net assets, including related goodwill. Any remaining holding shall be accounted for as a financial asset, associate or jointly controlled entity as appropriate.
- Where control is retained in a part-disposal of a subsidiary/a stake in an existing subsidiary is increased, no gain or loss is recognised in consolidated accounts/no additional goodwill is recognised. The transaction is accounted for as a transaction between equity holders.
- On disposal of a foreign subsidiary, foreign exchange differences recognised in equity are not recycled to profit or loss.
- Non-controlling interests (NCI) are measured as a proportion of net assets and presented as a separate component of equity.
- In individual financial statements, investments in subsidiaries, associates or joint ventures are accounted for at cost less impairment, FV through OCI or FVTPL (choice available for each of the three classes).
- Guidance is included on accounting for exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate.
- There is a rebuttable presumption that intermediate payment arrangements (e.g. ESOPs and EBTs) are under the control of the entity.
- Where this is the case, assets and liabilities of the intermediary are accounted for by the sponsoring entity as an extension of its own business and are recognised in the entity's individual financial statements.
- If the intermediary holds shares of the entity, they are shown as own equity (i.e. as if the entity had purchased its own shares).

Full EU-IFRS requirements

- IFRS 10 requires additional judgement in determining whether control exists.
- An investor controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- It includes an exception to consolidation for 'investment entities' (i.e. considering the status of the investor, whereas FRS 102 requires consideration of the status of the investee), which must measure subsidiaries at FVTPL rather than consolidating them.
- An investment entity:
 - obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
 - commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
 - measures and evaluates the performance of substantially all of its investments on a fair value basis.
- There are additional requirements that must be met before a parent is exempt from preparing consolidated financial statements.
- A maximum difference of three months is permitted for differences in group reporting dates. Includes guidance on the adjustments required when there is a difference.
- NCI is measured initially either at fair value or at the proportionate share of the net assets for each transaction.

- On loss of control, the assets and liabilities of a former subsidiary and any NCI in the subsidiary are derecognised at their carrying amount on disposal. Any continuing investment in the former subsidiary is initially measured at fair value. Any resulting difference is recognised as a gain or loss in profit or loss attributable to the parent.
- On disposal of a foreign subsidiary, foreign exchange differences recognised in equity are reclassified to profit or loss.
- In a business combination achieved in stages, any previously held interest in the acquiree is remeasured to fair value with a resulting gain or loss recognised in profit or loss.
- In separate financial statements, investments in subsidiaries, associates or joint controlled entities are measured either at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.
- Under IFRSs, a trust or similar vehicle would usually be regarded as a special purpose entity and therefore a subsidiary and its assets and liabilities would be included in the consolidated financial statements of the group. However, IFRSs would not necessarily, in all cases, require the same treatment in the individual financial statements of the sponsoring company.
- IFRS 12 requires more extensive disclosures around:
 - significant judgements and assumptions made in determining whether or not control exists;
 - investment entities;
 - consolidated structured entities;
 - unconsolidated structured entities; and
 - non-controlling interests.

Key conversion issues from old UK GAAP

- In general, few differences between FRS 102 and old UK GAAP as the approach to consolidated accounts and business combinations under FRS 102 broadly follows that of IFRS 3(2004) *Business Combinations* rather than IFRS 3(2008) *Business Combinations*.
- Mandatory consolidation exception for subsidiaries held as part of an investment portfolio – must account for at FVTPL.
- Where there is an increase in the controlling interest in a subsidiary, the identifiable assets and liabilities of the subsidiary are not revalued to fair value and no additional goodwill is recognised; the transaction will be accounted for as a transaction between equity holders.
- *Transitional provision – if a parent in its separate financial statements elects to account for its investment in a subsidiary at cost under FRS 102, it may measure the opening position of that investment, on the date of transition, at cost in accordance with FRS 102 or at ‘deemed cost’, being the previous carrying value of that investment under its previous GAAP.*

Section 10. Accounting Policies, Estimates and Errors

Scope

- Provides guidance on selecting and changing accounting policies, together with the accounting treatment of changes in accounting estimates and the correction of errors.

Summary of FRS 102

- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- In the absence of specific guidance in FRS 102, an entity should follow the following hierarchy when developing accounting policies:
 - requirements of FRS 102 dealing with similar and related issues;
 - any relevant SORP applicable to the entity; and
 - definitions, recognition and measurement concepts and pervasive principles set out in Section 2: *Concepts and Pervasive Principles*.
- An entity may also consider the guidance in full IFRSs dealing with similar issues, but is not required to apply it.
- Accounting policies must be applied consistently to similar transactions.
- An accounting policy is changed only if it is mandated by changes to FRS 102 or if it results in reliable and more relevant information.
- If a change in accounting policy is mandated by FRS 102, the transitional provisions, if specified, are applied. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods unless restatement is impracticable. The change in policy will then be applied from the start of the earliest period practicable with a corresponding adjustment to equity.
- Changes in accounting estimates are accounted for prospectively in the current year, or future years, or both, depending on which periods the change affects.
- All material errors are corrected by restating comparative prior period amounts to the extent practicable.

Full EU-IFRS requirements

- In the absence of specific guidance in full IFRSs, the hierarchy of guidance includes pronouncements issued by other standard-setting bodies or industry practice as a source to consider.
- Additional disclosure around impact of initial application of new IFRSs and expected impact of IFRSs not yet effective.
- Where retrospective application is impracticable, required to report the circumstances that led to the existence of that condition and a description of how and from when a change in accounting policy has been applied.
- Requires presentation of opening ('third') balance sheet where certain retrospective restatements arise and have a material effect on the opening balance sheet.

Key conversion issues from old UK GAAP

- Reduced specific guidance within FRS 102 may lead to increased need for judgement in determining accounting policies.
- When it is difficult to distinguish a change in accounting policy from a change in accounting estimate, FRS 102 states that the change should be treated as a change in accounting estimate.
- Errors are restated when 'material' rather than 'fundamental', which could lead to increased restatements.
- *Transitional provision – when preparing reconciliations from previous GAAP to FRS 102, any restatements made due to errors in a prior period should be shown separately from those due to the change in GAAP.*

Sections 11 and 12. Basic and Other Financial Instruments

FRS 102 includes two sections on financial instruments. Section 11 applies to so-called 'basic' financial instruments, whereas Section 12 applies to other, more complex ('non-basic') financial instruments and transactions, including hedge accounting. An entity applying FRS 102 has an accounting policy choice between applying either the provisions of Sections 11 and 12 in full or the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* and IAS 39 (as amended following the publication of IFRS 9).¹ An entity that applies the recognition and measurement principles of IAS 39 or IFRS 9 is required only to comply with the disclosure requirements of FRS 102 and not those of IFRS 7 *Financial Instruments: Disclosures*.

In July 2014, the FRC published extensive amendments to Sections 11 and 12. This publication only deals with the revised requirements, as they are effective from the same date as FRS 102 (1 January 2015). The amendments update the criteria a debt instrument must meet to be classified as 'basic' and relax the hedge accounting requirements. The amendments also introduce flexible transitional provisions for hedge accounting, which are included in Section 35.

The FRC intends to consult on updating the impairment requirements of Section 11 in response to the equivalent requirements of IFRS 9 (published by the IASB in July 2014). However, it is unlikely that any amendments will be made before the first three-year review of FRS 102.

1 An entity applying FRS 102 can apply IFRS 9 independent of EU endorsement.

Section 11. Basic Financial Instruments

Scope

- Does not apply to:
 - investments in subsidiaries, associate or joint ventures;
 - an entity's own equity;
 - leases;
 - employers' rights and obligations under employee benefit plans;
 - share-based payments;
 - insurance contracts including reinsurance contracts;
 - financial instruments with a discretionary participation feature;
 - reimbursement assets; and
 - financial guarantee contracts.
- Applies to all other basic financial instruments:
 - cash;
 - some equity instruments e.g. ordinary shares;
 - debt instruments meeting specific criteria (examples of instruments that would normally satisfy those conditions are trade accounts including those payable in a foreign currency, loans from banks, loans to or from subsidiaries that are due on demand and debt instruments that become immediately receivable if the issuer defaults); and
 - commitments to receive or make a loan that will be 'basic' that cannot be settled net in cash.
- The assessment as to whether a debt instrument is 'basic' (and therefore within the scope of Section 11) is rules-based. Section 11 includes a list of criteria, all of which must be met in order for a debt instrument to qualify as 'basic'. Failure to meet any of these criteria would mean that the debt instrument cannot be classified as 'basic'.
- All other financial instruments are 'non-basic' and are therefore within the scope of Section 12.

Summary of FRS 102

- Initial measurement:
 - On initial recognition, measurement is generally at transaction price, including transaction costs.
 - For instruments subsequently measured at FVTPL, transaction costs are excluded.
 - For financing transactions, the present value of future payments, discounted at a market rate of interest for a similar instrument, is used instead of transaction price.
- Subsequent measurement:
 - Most debt instruments are measured at amortised cost using the effective interest rate method. However, some short-term payables and receivables may be measured at the invoice price.
 - Most commitments to receive or make a loan are measured at cost less impairment.
 - An entity may designate debt instruments and loan commitments at FVTPL in certain circumstances.
 - Investments in preference shares and ordinary shares are measured at FVTPL if their fair value can be measured reliably. Other ordinary and preference shares are measured at cost less impairment.
- Amortised cost is the present value of the financial instrument's future cash flows discounted at the effective interest rate (i.e. the rate that initially discounts estimated future cash flows to the carrying amount of the instrument). The interest income or expense in a period equals the carrying amount at the beginning of the period multiplied by the effective interest rate.
- Financial assets measured at cost or amortised cost must be assessed for evidence of impairment at the end of each reporting period. Impairments are determined using an incurred rather than an expected loss model.

- An impairment loss for assets measured at amortised cost is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. For assets measured at cost, impairment is calculated as the difference between the carrying amount and the best estimate of the amount that would be received if the asset was sold at the reporting date.
- An impairment loss is reversed if the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. A reversal shall not result in a carrying amount that is greater than what it would have been had no impairment been recorded.
- Fair value is defined as the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- Guidance on estimating fair value is provided; the following hierarchy is used:
 - a quoted price for an identical asset in an active market;
 - a recent transaction price if no significant change in economic circumstances; and
 - a valuation technique.
- Financial assets are derecognised when:
 - the contractual rights to the cash flows expire or are settled;
 - substantially all the risks and rewards of ownership have been transferred; or
 - despite retaining some but not substantially all risks and rewards, control of the financial asset has been transferred and the other party has the practical ability to sell the asset in its entirety without needing to impose additional restrictions on the transfer. Any rights and obligations retained or created in the transfer are recognised separately.

- Financial liabilities are derecognised only when the obligation is extinguished (i.e. discharged, cancelled or expires). If, when a debt instrument is modified, or exchanged with an existing lender, the terms of the new or modified instrument are substantially different to those of the original instrument, the original debt is extinguished and a new debt instrument recognised.
- Qualifying entities that are not financial institutions can take an exemption from the disclosure requirements of this section, provided that equivalent disclosures are made in the publicly available consolidated financial statements in which it is consolidated.

Full EU-IFRS requirements

- Scope specifically excludes certain loan commitments.
- Financial assets are classified using a four-way model as either:
 - fair value through profit or loss;
 - available-for-sale;
 - held-to-maturity; or
 - loans and receivables.
- Financial liabilities are accounted for using a two-way model as either:
 - fair value through profit or loss; or
 - amortised cost.
- Includes complex measurement principles and impairment requirements for the different categories of financial assets.
- Classification of financial assets requires an assessment of management's intentions for holding the financial instruments. There are also tainting provisions for held-to-maturity assets.
- Permits the designation of financial instruments at fair value through profit or loss in certain circumstances (known as the fair value option).
- An impairment loss for assets measured at amortised cost is calculated as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. As a practical expedient impairment losses for instruments measured at amortised cost can be measured on the basis of an asset's fair value using an observable market price.
- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Reversal of impairment losses on unquoted equity instruments and available-for-sale financial equity instruments is not permitted.
- Derecognition requirements for financial assets include the need to assess pass-through arrangements and whether there is continuing involvement.

- IFRS 9 *Financial Instruments* was issued in July 2014 and is effective for periods beginning on or after 1 January 2018 with early adoption permitted, subject to endorsement.
- This standard will replace the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* except for the 'macro hedge accounting' requirements.

Key conversion issues from old UK GAAP

- Accounting for financial instruments is likely to be the most challenging area of an FRS 102 conversion.
- Investments in ordinary and preference shares must be measured at FVTPL if their fair value can be measured reliably.
- Some debt instruments must be measured at FVTPL, others are measured at amortised cost. Option to designate financial instruments at FVTPL on initial recognition in certain circumstances.
- *Transitional provision – permits a financial instrument to be designated at FVTPL as at the date of transition at any time before the first financial statements are authorised for issue.*
- For financing transactions (including all basic loans) that are not at a market rate of interest, requirements for initial and subsequent measurement at amortised cost may result in differences on transition and thereafter.
- More prescriptive guidance on when an impairment should be recognised (incurred loss model) and how impairment losses should be calculated.
- Derecognition of assets based on risk/reward and control tests and derecognition of liabilities when extinguished or substantially modified.
- *Transitional provision – provides relief from fully retrospective application of the derecognition requirements.*
- Extensive disclosure requirements similar to those of FRS 29 *Financial Instruments: Disclosures*.
- The option to use IAS 39 or IFRS 9 recognition/measurement will need to be assessed with care.

Section 12. Other Financial Instruments Issues

Scope

- Section 12 applies to all financial instruments except the following:
 - financial instruments covered by Section 11;
 - interests in subsidiaries, associates or joint ventures;
 - employers' rights and obligations under employee benefit plans;
 - insurance contracts including reinsurance contracts;
 - financial instruments with a discretionary participation feature;
 - an entity's own equity;
 - most leases (except where they could result in a loss to either party as a result of non-typical contractual terms);
 - contracts for contingent consideration in a business combination (acquirer only);
 - any forward contract to buy or sell an acquiree that will result in a business combination at a future acquisition date;
 - share-based payments;
 - reimbursement assets; and
 - financial guarantee contracts.
- Applies to:
 - all other financial instruments. Examples of financial instruments normally within the scope of this section include interest rate swaps, forwards, options and investments in convertible debt;
 - leases or contracts to buy or sell a non-financial item that impose risks on either party that are not typical of such contracts; and
 - certain contracts to buy or sell non-financial items that are not held to meet the entities 'own use' requirements.

Summary of FRS 102

- Initial recognition is at fair value. For instruments not subsequently measured at FVTPL, transaction costs are included.
- Investments in equity instruments whose fair value cannot be reliably determined and derivatives that are linked to such instruments are measured at cost less impairment. Instruments that cannot legally be measured at FVTPL are measured at amortised cost. This is expected to be rare. The guidance in section 11 on impairment applies to such instruments.
- All other contracts within the scope of this section are measured at fair value. With the exception of some hedging instruments, changes in fair value are recognised in profit or loss. The guidance in Section 11 is used to determine fair value.
- No separate accounting for 'non-typical' features in leases or contracts to buy or sell a non-financial item. A contract with 'non-typical' features is fair valued in its entirety with changes in fair value recognised in profit or loss.
- Hedging is voluntary and can be applied if the hedging relationship is designated and documented.
- A hedging relationship must consist only of eligible hedged items and eligible hedging instruments:
 - A recognised asset or liability, unrecognised firm commitments and highly probable forecast transactions can be designated as hedged items. A group of items, and certain components of items, can be eligible if certain conditions are met.
 - Unless it is a written option, a financial instrument measured at FVTPL will be an eligible hedging instrument, provided the counterparty is external to the reporting entity. Groups of items can be eligible. The foreign currency risk component of a non-financial instrument is also an eligible hedging instrument.

- A hedge relationship must be consistent with the entity's risk management objectives and there must be an economic relationship between the hedged item and the hedging instrument. This may be demonstrated qualitatively.
- It cannot be assumed that a hedge is perfectly effective. Hedge ineffectiveness must be measured and potential sources of hedge ineffectiveness must be documented.
- There are three types of hedge accounting:
 - Fair value hedges: hedges of the changes in fair value of an asset or liability that could affect profit or loss, where the gain or loss on the hedged item is recognised in profit or loss to match the hedging instrument.
 - Cash flow hedges: hedges of variability in cash flows that could affect profit or loss, where gains and losses on the hedging instrument are deferred in reserves via OCI and later reclassified to profit or loss to match the recognition of the hedged item.
 - Net investment hedges: hedges of foreign exchange risk in foreign net investments, where gains or losses on the hedging instrument are matched in OCI against the foreign currency losses or gains on the hedged net investment. Amounts recognised in equity are not reclassified to profit or loss.
- Hedge accounting may be discontinued voluntarily. Otherwise, hedging should be discontinued when the hedging instrument expires, is sold or terminated; or if the relationship ceases to meet the criteria for hedge accounting.
- Qualifying entities that are not financial institutions can take an exemption from the disclosure requirements of this section, provided that equivalent disclosures are made in the publicly available consolidated financial statements in which they are consolidated.

Full EU-IFRS requirements

- Scope includes financial guarantee contracts (not accounted for under IFRS 4 *Insurance Contracts*).
- Requires separate accounting for non-closely related embedded derivatives in both financial instruments and non-financial contracts (similar but not identical to 'non-typical' features).
- If accounted for separately the host contract is accounted for as a normal contract, and the derivative at fair value. If separation is required, for financial instruments, an entity can choose to designate the whole contract at FVTPL on initial recognition.
- The documentation requirements for hedge accounting are more extensive.
- It is necessary to test hedge effectiveness both prospectively and retrospectively. Requires hedge to be highly effective (80%-125%).
- There are different restrictions on what are eligible hedged items and hedging instruments. In some cases, IAS 39 is less restrictive, but in others it is more restrictive than FRS 102. For example:
 - A non-financial item can be hedged only for foreign currency risks or all risks in its entirety.
 - It is possible to exclude the time value of an option or interest element of a forward from the designation.
 - The gains & losses recognised in equity in relation to a net investment hedge are reclassified to profit or loss on the disposal or partial disposal of the net investment.

Key conversion issues from old UK GAAP

- Significantly more onerous than non-FRS 26 old UK GAAP because of the following:
 - recognising derivatives on balance sheet at fair value. Under old UK GAAP there was very limited guidance on accounting for derivatives, which were generally held off balance sheet;
 - measuring instruments at FVTPL. FRS 102 introduces a FVTPL model for some financial instruments;
 - formal hedge accounting requirements (documentation and designation requirements, effectiveness testing and no synthetic accounting); and
 - additional disclosure requirements on hedge accounting.
- Contracts that are not financial instruments may be within scope of Section 12. This can be as a result of 'non-typical' features or because a purchase or sale of a non-financial item does not meet the 'own use' exception. Application of the 'own use' exception can be complex. Once within scope, such contracts are measured at FVTPL in their entirety.
- Equity instruments must be measured at FVTPL if their fair value can be measured reliably.
- Limited guidance on accounting for hedges of foreign currency risk.
- The option to use IAS 39 or IFRS 9 recognition/measurement will need to be considered carefully.
- *Transitional provisions – the July 2014 amendments allow retrospective (backward looking) designation and documentation of most eligible hedging relationships at any time up to the date when the first FRS 102 financial statements are authorised for issue i.e. a relationship can be designated 'as at' the date of transition or any other date.*

Section 13. Inventories

Scope

- Applies to all inventories, except for:
 - work in progress arising from construction contracts (see Section 23);
 - financial instruments; and
 - biological assets and agricultural produce at the point of harvest.
- Does not apply to the measurement of inventory held by commodity brokers, dealers or producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral resources to the extent that they are measured at fair value less costs to sell.

Summary of FRS 102

- Inventories are assets held for sale in the ordinary course of business, being produced for sale or to be consumed in the production process.
- Measured at lower of cost or estimated selling price less cost to complete and sell.
- Permits the inclusion of borrowing costs in the cost of inventory in limited circumstances.
- Inventories held for distribution at no or nominal consideration are measured at cost, adjusted for any loss of service potential.
- When inventories held for distribution at no or nominal consideration are distributed, the carrying amount of those inventories is recognised as an expense.
- Inventories acquired through a non-exchange transaction are measured at fair value at the date of acquisition.
- The cost of inventories includes purchase cost, conversion cost and other costs incurred to bring the inventory to its present location and condition, including a systematic allocation of fixed production overheads.
- Inventory items that are not interchangeable or produced for specific projects are measured using the individually identified costs.

- Other inventory items are measured using either the first-in, first-out or weighted average cost formula. The last-in, first-out method is not permitted.
- When inventories are sold, the carrying amount is recognised as an expense in the period in which the related revenue is recognised.

Full EU-IFRS requirements

- IAS 2 *Inventories* does not apply to the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products, to the extent that these inventories are measured at net realisable value in accordance with well-established industry practices.
- Refers to 'net realisable value' rather than 'estimated selling price less cost to complete and sell.'
- Requires the inclusion of borrowing costs in the cost of inventory in limited circumstances.

Key conversion issues from old UK GAAP

- Similar to SSAP 9 *Stocks and long-term contracts* but the term 'net realisable value' is replaced with 'estimated selling price less costs to complete and sell'.
- Post-harvest agricultural produce comes within the scope, but pre-harvest biological assets and produce at the point of harvest are outside the scope.
- Carrying value may be affected where inventory is the hedged item in a fair value hedge relationship.
- Long-term contracts are dealt with under 'Revenue' (see Section 23).

Section 14. Investments in Associates

Scope

- Addresses accounting for associates in consolidated financial statements and individual financial statements.

Summary of FRS 102

- Presumption of significant influence if investment represents, directly or indirectly, more than 20% of voting power.
- An investor may account for investments in associates at cost less impairment, FV through OCI or FVTPL in its individual financial statements.
- An investor that is not a parent must also disclose summarised financial information about the investments in associates, along with the effect of including those investments if they were accounted for using the equity method.
- In consolidated accounts, an investor must use the equity method to account for investments in associates.
- Under the equity method, the investment is initially recorded at the transaction price and subsequently adjusted to reflect the investor's share of profit or loss and other comprehensive income. Implicit goodwill arising on acquisition is amortised. Detailed guidance is provided on the application of the equity method.
- Losses in excess of the carrying value of the investment in the associate are not recognised as a liability unless the investor has a legal or constructive obligation to make payments on behalf of the associate.
- An associate that is held as part of an investment portfolio must be measured at fair value with changes in fair value recognised in profit or loss in the consolidated financial statements.

- The associate's financial statements should be made up to the same date as those of the investor unless impracticable; if impracticable, the investor should use the most recently available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the period ends.

Full EU-IFRS requirements

- The equity method can also, in some circumstances, be required in financial statements other than consolidated financial statements.
- Permits FVTPL measurement for associates held by venture capital organisations, mutual funds, unit trusts and similar entities.
- Associates held for sale should be classified and presented separately.
- In the investor's separate financial statements, investments in associates are accounted for at cost or in accordance with IAS 39.
- No specific disclosures required where the investor does not apply the equity method.
- IFRS 12 specifies required disclosures for interests in associates and joint ventures.

Key conversion issues from old UK GAAP

- Equity accounting continues to be required in consolidated financial statements; no specific guidance on what 'share of profit' means (i.e. whether it is pre-tax or post-tax).
- FRS 102 has no three-month limit on the gap between non-coterminous year-ends.
- FRS 102 does not require a liability to be recognised for losses in excess of the investment in the associate unless the investor has a legal or constructive obligation to make payments on behalf of the associate.
- *Transitional provision – if a parent in its separate financial statements elects to account for its investment in an associate at cost under FRS 102, it may measure the opening position of that investment, on the date of transition, at cost in accordance with FRS 102 or at 'deemed cost', being the previous carrying value of that investment under its previous GAAP.*

Section 15. Investments in Joint Ventures

Scope

- Applies to accounting for joint ventures in consolidated financial statements and individual financial statements.

Summary of FRS 102

- A joint venture is a contractual arrangement to undertake an economic activity subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.
- In a jointly controlled operation, the venturer recognises the assets it controls, and liabilities and expenses it incurs, as well as its share of income earned.
- For jointly controlled assets, the venturer recognises its share of the joint assets, liabilities, income and expenses, as well as any liabilities and expenses that it has incurred directly.
- A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.
- An investor may choose between the cost model (cost less impairment), fair value through OCI or FVTPL in accounting for jointly controlled entities in its individual financial statements.
- Investors that are not parents must also disclose summarised financial information about the investments in its jointly controlled entities, along with the effect of including those investments if they were accounted for using the equity method.
- In consolidated accounts, an investor must use the equity method to account for jointly controlled entities.
- If a venturer uses the equity method, it applies the guidance included in Section 14.
- An investment in a jointly controlled entity that is held as part of an investment portfolio must be measured at fair value with changes in fair value recognised in profit or loss in the consolidated financial statements.

- Guidance is included on accounting for transactions between a joint venture and a joint venturer.

Full EU-IFRS requirements

- IFRS 11 applies to all entities that are party to a joint arrangement.
- It categorises joint arrangements by focusing on the rights and obligations of the parties to the joint arrangement.
- Joint arrangements are divided into two categories: joint operations and joint ventures. A joint arrangement that is not structured through a separate vehicle is always classified as a joint operation. A joint arrangement that is structured through a separate vehicle can be either a joint operation or a joint venture, depending on the facts and circumstances.
- In consolidated accounts, investors use the equity method to account for joint ventures as laid out in IAS 28 (Revised 2011).
- The equity method is required in some circumstances in financial statements other than consolidated financial statements.
- A joint operator recognises its share of the joint assets, liabilities, income and expenses, as well as any assets, liabilities and expenses that it holds or has incurred directly.
- In the investor's separate financial statements, an interest in a joint venture is accounted for at cost or in accordance with IAS 39; accounting for a joint operation is the same as in the consolidated accounts.
- IFRS 12 specifies required disclosures for interests in associates and joint ventures.

Key conversion issues from old UK GAAP

- The two-way classification of joint arrangements (joint venture vs JANE) is replaced by a three-way classification.
- Equity accounting is still required for joint ventures in consolidated financial statements, but gross equity accounting will no longer be required.
- *Transitional provision – if a parent in its separate financial statements elects to account for its investment in a joint venture at cost under FRS 102, it may measure the opening position of that investment, on the date of transition, at cost in accordance with FRS 102 or at ‘deemed cost’, being the previous carrying value of that investment under its previous GAAP.*

Section 16. Investment Property

Scope

- Applies to accounting for properties held by the owner or lessee to earn rentals and/or for capital appreciation.
- Does not apply to property used in the production or supply of goods or services or administrative purposes or held for sale in the ordinary course of business.

Summary of FRS 102

- Investment property is measured at cost on initial recognition (which includes purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs).
- Subsequently, investment property is measured at fair value at the reporting date with any changes recognised in profit or loss.
- If fair value cannot be measured without undue cost or effort, the property is accounted for as property, plant and equipment in accordance with Section 17.
- Property interest held by a lessee under an operating lease may be classified as investment property only if it would otherwise meet the definition of an investment property and the lessee can measure the fair value without undue cost or effort on an ongoing basis. This classification is available on a property-by-property basis.
- Mixed-use property is separated between investment property and property, plant and equipment.

Full EU-IFRS requirements

- Open accounting policy choice between fair value and cost model.
- Property interest held under an operating lease and classified as investment property triggers a fair value accounting policy for all investment properties.
- Qualifying borrowing costs incurred during construction of investment property must be included in its cost.

Key conversion issues from old UK GAAP

- Able to revert to cost accounting on an asset-by-asset basis where fair value is not available without undue cost or effort.
- Internal valuations possible (with sufficient disclosure).
- Where fair value is used, gains and losses are recognised in P&L.
- No exception for properties used by another group company.
- Mixed-use properties are split between investment property and property, plant and equipment where possible.
- No explicit requirement to charge depreciation for investment properties held under operating leases.
- *Transitional provision – an old UK GAAP revaluation carried out prior to the transition date may be used as ‘deemed cost’ at date of transition.*

Section 17. Property, Plant and Equipment

Scope

- Applies to the accounting for property, plant and equipment held for use in the supply of goods or services, for rental to others or administrative purposes and that is expected to be used during more than one period.
- Also applies to the accounting for investment property whose fair value cannot be measured reliably without undue cost or effort.
- Does not apply to biological assets related to agricultural activity or mineral rights and reserves.

Summary of FRS 102

- Initial recognition is at cost, which includes the purchase price, all costs necessary to get the asset ready for its intended use and an estimate of the costs of dismantling and removing the item, and restoring the site, if required.
- Subsequent to initial recognition, property, plant and equipment is measured either using the cost model or the revaluation (through OCI) model (less accumulated depreciation and impairment losses), which is an accounting policy choice by class of asset.
- Revaluations must be made with sufficient regularity to ensure that the carrying value does not differ materially from fair value.
- Fair value is usually determined from market-based evidence by appraisal that is normally (but not mandatorily) undertaken by professionally qualified valuers. If there is no market-based evidence, an income or depreciated replacement cost approach may need to be used.
- Land and buildings are accounted for separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method should reflect the expected pattern of benefit consumption. Land is generally not depreciated.
- Where major components of an asset have significantly different patterns of consumption of economic benefits, the initial cost of the asset must be allocated to its major components and each must be depreciated separately over its useful life.

- Residual value, useful life and depreciation methods are reviewed when there is an indication that they have changed since the most recent annual reporting date and any changes are accounted for as a change in accounting estimate.
- Borrowing costs may be capitalised (accounting policy choice, see Section 25).
- A plan to dispose of an asset before the previously expected date is an indicator of impairment which triggers the calculation of the asset's recoverable amount.

Full EU-IFRS requirements

- Assets held for sale are excluded from the scope of IAS 16 *Property, Plant and Equipment*.
- Borrowing costs incurred during construction of property, plant and equipment must be capitalised as part of its cost.
- Review of residual value, useful life and/or amortisation methods should be performed annually.

Key conversion issues from old UK GAAP

- No change to available accounting methods, depreciation or impairment rules.
- Fewer rules around regularity of valuations.
- Must use fair value under FRS 102, which may differ from existing use value required by old UK GAAP.
- No guidance on website development costs (i.e. no equivalent of UITF 29), and the wider definition of intangible assets under FRS 102 may mean such costs are more appropriately classified as intangible assets rather than tangible assets (see Section 18).
- *Transitional provisions:*
 - *an item of property, plant and equipment may be revalued to fair value on the date of transition, and that fair value may be used as 'deemed cost' at that date.*
 - *a previous UK GAAP revaluation may be used as 'deemed cost' at date of transition.*
 - *FRS 102 requires the cost of a fixed asset to include an estimate of the costs of dismantling and removing the item and restoring the site on which it is located. A first-time adopter may elect to measure any such estimate as at the date of transition, rather than on the date when the obligation initially arose.*

Section 18. Intangible Assets other than Goodwill

Scope

- Applies to all intangible assets, excluding goodwill and intangible assets held for sale in the ordinary course of business.
- Intangible assets are identifiable non-monetary assets without physical substance. They are separable from the entity or arise from contractual or legal rights.
- Intangible assets do not include financial assets, heritage assets or mineral rights and reserves.

Summary of FRS 102

- An intangible asset is recognised if:
 - it is probable that future economic benefits attributable to the asset will flow to the entity; and
 - the cost or value can be measured reliably.
- Internally generated brands and similar items, start-up activities, training costs, relocation costs, advertising costs and internally generated goodwill are not recognised as intangible assets.
- Research costs are expensed as incurred; development costs may be capitalised (an accounting policy choice) if certain criteria are met; examples of development activities are given in the standard.
- Intangible assets are initially measured at cost, except where acquired as part of a business combination or by way of a government grant, where they are measured at fair value.
- Subsequent to initial recognition, intangible assets are measured either using the cost model or the revaluation (through OCI) model (less accumulated amortisation and impairment losses).
- The revaluation model may only be applied where the fair value of the asset can be determined by reference to an active market.
- All intangible assets are considered to have a finite useful life.
- In rare cases, where the useful life cannot be estimated reliably, it is presumed to be no more than five years.

- Residual value is assumed to be zero, unless there is a commitment from a third party to purchase at the end of the useful life or there is an active market for the asset.

Full EU-IFRS requirements

- Requires the capitalisation of certain expenditure incurred on internally generated intangible assets, i.e. development costs meeting specified criteria.
- Intangible assets acquired free of charge or for nominal consideration by way of a government grant can initially be recognised at the nominal amount in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
- Intangible assets may have an indefinite useful life but must be tested annually for impairment if this is the case.
- Review of residual value, useful life or amortisation methods should be performed annually.

Key conversion issues from old UK GAAP

- Intangible assets will be unable to have infinite useful lives and must be amortised; intangible assets with indefinite useful lives under old UK GAAP will need to be attributed a useful economic life and amortised prospectively from the transition date.
- Where intangible assets are already being amortised, the useful life will not necessarily need to change on transition – the default maximum of five years under FRS 102 is only applicable if a more appropriate useful life cannot be reliably estimated.
- No guidance on website development costs (i.e. no equivalent of UITF 29), and the wider definition of intangible assets under FRS 102 may mean such costs are more appropriately classified as intangible assets rather than tangible assets, but assessment will depend on specific facts and circumstances.
- *Transitional provisions:*
 - *an intangible asset meeting the revaluation criteria above may be revalued to fair value on the date of transition, and that fair value may be used as 'deemed cost' at that date.*
 - *a previous UK GAAP revaluation may be used as 'deemed cost' at date of transition.*
 - *a first-time adopter may elect to use the carrying amount at the date of transition for development costs deferred in accordance with SSAP 13 Accounting for research and development as the 'deemed cost' at that date.*

Section 19. Business Combinations and Goodwill

Scope

- Applies to accounting for business combinations and goodwill both at the time of the business combination and subsequently.
- It does not apply to the:
 - formation of a joint venture; or
 - acquisition of assets that do not constitute a business.

Summary of FRS 102

- Business combinations are defined as the bringing together of separate entities or businesses into one reporting entity.
- Business combinations are accounted for using the purchase method (NB this is as described in IFRS 3(2004), and not IFRS 3(2008)), which involves the following steps:
 - identifying an acquirer;
 - measuring the cost of the business combination as the aggregate of the fair value of assets given, liabilities assumed and equity issued plus any directly attributable transaction costs; and
 - allocating the cost of the business combination to the assets acquired and liabilities and reliably measurable contingent liabilities assumed based on their fair values.
- Intangible assets acquired and contingent liabilities assumed are recognised separately if the fair value can be measured reliably.
- Intangible assets must be identifiable in order to be recognised separately from goodwill, i.e. they must be separable or arise from contractual or legal rights.
- Any difference between the cost of the business combination and the acquirer's interest in the fair value of identifiable assets, liabilities and contingent liabilities assumed, is goodwill.

- If there is an excess over the cost of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities ('negative goodwill'), the acquirer must:
 - reassess the identification and measurement of the components of the business combination (including the cost);
 - recognise and separately disclose the excess on the face of the balance sheet, immediately below goodwill, and followed by a net sub-total of goodwill and 'negative goodwill'.
- Any such 'negative goodwill' is released to profit or loss in the periods in which the non-monetary assets acquired are recovered.
- Contingent consideration is included in the cost if it is probable and can be measured reliably. Subsequent adjustments to the estimate are recognised against goodwill.
- Goodwill must have a finite life and is measured at cost less accumulated amortisation and impairment losses. In rare cases, where a reliable estimate of the useful life of goodwill cannot be made, it is presumed to be no more than five years.
- Group reconstructions may be accounted for using the merger accounting method, provided:
 - use of the merger accounting method is not prohibited by company law or other relevant legislation;
 - ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; and
 - no non-controlling interest in the net assets of the group is altered by the transfer.
- The merger accounting method allows assets and liabilities to be transferred at book value, rather than fair value.
- Any difference between the nominal value of shares issued plus the fair value of any other consideration, and the nominal value of any shares received in exchange, must be shown as a movement on other reserves.

- The results and cash flows of all the combining entities must be brought into the financial statements of the combined entity from the beginning of the financial year in which the combination occurred, adjusted so as to achieve uniformity of accounting policies.
- Comparative information must be restated as if the reconstruction had always been in place.
- Merger expenses are charged to profit or loss of the combined entity at the effective date of the reconstruction.

Full EU-IFRS requirements

- Business combinations are accounted for using an acquisition method based on the fair value of the consideration transferred (method revised in 2008).
- Transaction costs are not capitalised as part of the cost of a business combination but expensed.
- There is a presumption that the fair value of intangible assets acquired in a business combination is always measurable.
- Contingent consideration is initially recognised at fair value regardless of probability. Adjustments outside of the measurement period are recognised in profit or loss or other comprehensive income.
- Option to measure non-controlling interest either at fair value or at share of net assets.
- Goodwill is not amortised but is tested annually for impairment.
- 'Negative goodwill' is recognised in profit or loss as a gain on a bargain purchase.
- Specific guidance is included on accounting for a number of acquisition-related issues, including reverse acquisitions, indemnification assets, reacquired rights and pre-existing relationships.
- No guidance for common control transactions.
- Additional disclosure requirements around acquisitions made in the reporting period, and after the end of that period.

Key conversion issues from old UK GAAP

- Merger accounting is only permitted for group reconstructions meeting specified criteria and certain PBE combinations; requirements no longer permit merger accounting for 'true mergers'.
- No change to UK acquisition method (e.g. acquisition costs, contingent consideration), but more intangibles may be identified separately from goodwill as intangibles will no longer need to be separable and arise from legal or contractual rights; only one of these two criteria is needed (although the fair value must be reliably measurable).
- Negative goodwill continues to be recognised and presented on the face of the balance sheet.
- Goodwill will be unable to have an infinite useful life and must be amortised; goodwill with an indefinite useful life under old UK GAAP will need to be attributed a useful economic life and amortised prospectively from the transition date.
- Deferred tax will need to be recognised on fair value adjustments (including recognition of any additional intangibles) arising in business combinations, with a corresponding adjustment to goodwill.
- *Transitional provision – no restatement of 'old' business combinations required.*
If the transitional provision is taken and previous business combinations are not restated, no additional intangible assets should be recognised on such combinations and there should be no change made to the carrying value of goodwill at the transition date.

Section 20. Leases

Scope

- Applies to all leases, including some arrangements that do not take the legal form of a lease but convey rights to use assets in return for payments.
- Excluded from scope are:
 - leases to explore for or use mineral and other non-regenerative resources;
 - licensing agreements accounted for in accordance with Section 18;
 - measurement of property held by lessees that is accounted for as investment property and investment property provided by lessors under operating leases;
 - measurement of biological assets for lessees (finance leases) or lessors (operating leases); and
 - certain leases in the scope of Section 12 (e.g. those with non-typical features).

Summary of FRS 102

- Lease classification is made at the inception of the lease and is not changed unless the terms of the lease change.
- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples of situations that would normally lead to a lease being classified as a finance lease are:
 - transfer of ownership by end of lease term;
 - option to purchase asset at price below fair value;
 - lease term is for major part of the economic life of the asset;
 - present value of minimum lease payments is substantially equal to the asset's fair value; and/or
 - leased asset is of specialised nature.
- All other leases are classified as operating leases.

- Lessees – finance leases:
 - asset and liability are recognised at the lower of the present value of minimum lease payments and the fair value of the asset;
 - asset is depreciated over shorter of lease term and useful life, and assessed at each reporting period end for impairment;
 - finance charge is recognised based on pattern that reflects a constant periodic rate of return; and
 - finance lease payments are apportioned between interest expense and reduction in liability using the effective interest rate method.
- Lessees – operating leases:
 - lease payments are recognised as an expense on a straight-line basis over the lease term, unless the payments are structured to increase with expected general inflation to compensate for the lessor's expected inflationary cost increases or another systematic basis is more representative of the pattern of benefit; and
 - any lease incentives are spread over the lease term on a straight-line basis unless another systematic basis is more representative.
- Lessors – finance leases:
 - receivable is recognised at an amount equal to the net investment in the lease. The net investment is the aggregate of the minimum lease payments receivable and any unguaranteed residual value, discounted at the interest rate implicit in the lease;
 - for leases other than those involving manufacturer or dealer lessors, initial direct costs are included in measurement of finance lease receivable;
 - finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment;
 - finance lease payments are apportioned to reduce both the principal and unearned finance income; and

- manufacturer or dealer lessors recognise profit or loss equivalent to that which would be achieved on a normal outright sale and finance income over the lease term.
- Lessors – operating leases:
 - assets subject to operating leases are presented in the statement of financial position according to the nature of the asset and are depreciated in accordance with the lessor's depreciation policy for similar assets;
 - lease income is recognised on a straight-line basis over the lease term, unless structured to increase with expected general inflation or another systematic basis is more representative of the pattern of benefit; and
 - any lease incentives offered are spread over the lease term on a straight-line basis unless another systematic basis is more representative.
- If a sale and leaseback transaction results in a finance lease, the seller-lessee should amortise any excess of sales proceeds over the carrying amount of the asset over the lease term.
- If a sale and leaseback transaction results in an operating lease and was at fair value, any profit is recognised immediately.
 - If below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price.
 - If above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.
- If a lease becomes onerous, Section 21 *Provisions and Contingencies* is also applied.

Full EU-IFRS requirements

- No scope exclusion for certain contracts that, under FRS 102, are dealt with in Section 12.
- Operating lease payments that are structured to increase with expected inflation to compensate for the lessor's expected inflationary cost increases are not excluded from requirement to recognise the lease income/expense on a straight-line basis.
- When a lease includes both land and buildings elements, an entity assesses the classification of each element separately.

Key conversion issues from old UK GAAP

- Basic finance/operating lease model retained, but classification requires more judgement, based on eight indicators. No reference made to a '90% test' and no rebuttable presumption.
- Lease incentives now spread over the full lease term rather than to the first rent review.
- Lessee accounting similar to old UK GAAP, but additional feature allowing operating lease rental payments to be structured to increase in line with expected general inflation without being 'straight-lined'.
- No net cash investment approach for lessor accounting for finance leases – net investment approach only.
- *Transitional provisions:*
 - *first-time adopters may elect to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at the date of transition, rather than the date of inception of that lease.*
 - *for pre-existing lease incentives, first-time adopters may elect to continue with existing treatment rather than revising the period over which the incentive is spread at the date of transition.*

Section 21. Provisions and Contingencies

Scope

- Applies to all provisions, contingent liabilities and contingent assets, except those covered by other sections of FRS 102 (for example, leases, construction contracts, employee benefits and income tax).
- Does not apply to executory contracts unless they are onerous contracts.
- Includes most financial guarantee contracts.

Summary of FRS 102

- A provision is recognised only when a past event has created a present obligation at the reporting date, an outflow of economic benefits is probable and the amount of the obligation can be estimated reliably.
- An obligation arises when an entity has no realistic alternative to settle the obligation and can be a contractual, legal or constructive obligation. This excludes obligations that will arise from future actions, even if they are contractual, no matter how likely they are to occur.
- Provisions are measured at the best estimate of the amount required to settle the obligation at the reporting date and should take into account the time value of money if material.
- When all or part of a provision may be reimbursed by a third party, the reimbursement is recognised as a separate asset when it is virtually certain that payment will be received.
- Provisions are utilised only for the purpose for which they are originally recognised.
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.
- Onerous contracts are provided for to the extent of the present obligation under that contract.
- Some guidance is included on providing for restructuring costs.
- A contingent liability arises when there is a possible but uncertain obligation or a present obligation that fails to meet one or both of the recognition criteria for provisions.

- Contingent liabilities are not recognised as liabilities, but disclosure is required unless the possibility of an outflow of resources is remote.
- When an inflow of economic benefits is probable but not virtually certain, a contingent asset is disclosed.
- Prejudicial disclosures may be omitted in extremely rare cases, but the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed, must still be given.
- Examples of different types of provision and contingent liability are provided in an appendix.

Full EU-IFRS requirements

- Provides more guidance on provisions relating to restructurings, but otherwise similar to above requirements.

Key conversion issues from old UK GAAP

- No change to old UK GAAP.

Section 22. Liabilities and Equity

Scope

- Addresses classification of financial instruments as liability or equity and accounting for compound financial instruments.
- Applies to the accounting for equity instruments issued to owners of the entity and purchases of own equity.
- Does not apply to:
 - investments in subsidiaries, associates and joint ventures accounted for under Sections 9, 14 and 15;
 - employers' rights and obligations under employee benefit plans;
 - contracts for contingent consideration in a business combination;
 - financial instruments, contracts and obligations under share-based payment arrangements;
 - insurance contracts issued and reinsurance contracts held; and
 - financial instruments with a discretionary participation feature issued.

Summary of FRS 102

- A financial liability is:
 - a contractual obligation to deliver cash or another financial asset; or
 - a contract that will or may be settled in the entity's own equity instruments and:
 - i. under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - ii. will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

- If the issuer does not have the unconditional right to avoid settling in cash or by delivery of another financial asset, and settlement is dependent on the occurrence or non-occurrence of uncertain future events beyond the control of the issuer and the holder, the instrument is a financial liability of the issuer unless:
 - the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
 - the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
 - the financial instrument has all the features described of a puttable equity instrument.
- A number of criteria must be met if a puttable instrument is to be classified as equity.
- Puttable instruments that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation.
- Members' shares in co-operative entities are only equity if the entity has an unconditional right to refuse redemption of the members' shares or redemption is unconditionally prohibited by law, regulation or the entity's governing charter.
- The issue of shares is recognised as equity when another party is obliged to provide cash or other resources in exchange for the instruments. This applies equally to the sale of options, rights, warrants and similar equity instruments.
- Equity instruments are measured at the fair value of the cash or other resources received, net of the direct costs of issuing the equity instruments. If payment is deferred, the time value of money should be taken into account on initial measurement if material.

- Capitalisation, bonus issues and share splits do not result in changes to total equity and are recognised by reclassifying amounts within equity in accordance with applicable laws.
- Proceeds on the issue of a compound financial instrument are allocated between the liability and equity components. The liability component is measured at the fair value of a similar liability that does not have a conversion feature. The residual amount is allocated to the equity component.
- Treasury shares are measured at the fair value of the consideration paid and are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of treasury shares.
- Equity is reduced by the amount of distributions to owners, net of any income tax benefits.
- Entities must disclose the fair value of any non-cash assets that have been distributed to the owners during the reporting period, unless there is no change in ultimate control of those assets as a result of the distribution.
- Changes in a parent's controlling interest in a subsidiary that do not result in a loss of control are treated as equity transactions with the owners and no gain or loss is recognised.

Full EU-IFRS requirements

- Requires fair value measurement for distributions of non-cash assets that are not ultimately controlled by the same party before and after the distribution with a resulting gain or loss recognised in profit or loss.

Key conversion issues from old UK GAAP

- Classification of equity/liability fully consistent with FRS 25 *Financial Instruments: Presentation* and recent rule-based updates for puttable shares and members' shares in co-operatives. Detailed application guidance is not included.
- Incorporates a requirement to disclose (but not recognise) the fair value of non-cash assets distributed to shareholders in certain cases.
- Transactions between a group and non-controlling interests will be recognised in equity.
- *Transitional provision – compound financial instruments do not have to be separated if the liability component was not outstanding at the date of transition.*

Section 23. Revenue

Scope

- Applies to the accounting for revenue arising from the sale of goods, rendering of services, construction contracts and the use by others of entity assets yielding interest, royalties or dividends.
- It does not apply to revenue or income arising from transactions and events dealt with in other sections of the standard (e.g. leases, changes in fair value in investment property).

Summary of FRS 102

- Revenue is recognised at the fair value of the consideration received or receivable taking into account trade discounts, prompt settlement discounts and volume rebates.
- Revenue only includes the gross inflow of economic benefits for the entity's own account.
- When payment of the consideration is deferred, the arrangement contains a financing element and revenue is recognised at the present value of future receipts determined using the imputed rate of interest. The difference between the present value of all future receipts and the nominal amount of the consideration is recognised as interest revenue.
- Revenue should be recognised in barter transactions when goods are sold or services are exchanged for dissimilar goods or services in a transaction that has commercial substance.
- Loyalty awards granted to customers as part of a sales transaction are accounted for as a separately identifiable component of the sales transaction, with the fair value of the consideration allocated between the award credits and other components of the sale.
- Revenue is generally recognised when it is probable that the economic benefits will flow to the entity, when the amount of revenue can be measured reliably, and the following conditions are met:
 - from sale of goods: when significant risks and rewards have been transferred, the seller has lost effective control and the costs incurred (or to be incurred) can be measured reliably;

- from rendering of services: when the stage of completion and costs incurred (or to be incurred) can be measured reliably; and
- from construction contracts: when the outcome of a construction contract (stage of completion) can be measured reliably.
- When the outcome of a transaction for the rendering of services or a construction contract cannot be measured reliably, revenue is recognised to the extent that costs incurred will be recoverable.
- Revenue from the use by others of entity assets is recognised when an inflow of future economic benefits is probable and the amount of revenue can be measured reliably. The following bases are used:
 - for interest: the effective interest rate method;
 - for royalties: on an accrual basis in accordance with the substance of the agreement; and
 - for dividends: when the shareholder's right to receive payment is established.
- Several examples relating to revenue recognition are included in an appendix.

Full EU-IFRS requirements

- Excludes revenue arising from extraction of mineral ores and changes in the value of current assets from its scope.
- Also provides guidance on transfers of assets from customers, fixed price and cost-plus construction contracts, customer loyalty schemes and advertising barter transactions.
- A new IFRS standard on revenue, IFRS 15 *Revenue from Contracts with Customers*, was published in May 2014. This standard will replace the requirements of IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related *Interpretations*.
- At the time of writing, IFRS 15 has not yet been endorsed for use in the European Union and as such is not yet available for use by UK companies.

Key conversion issues from old UK GAAP

- FRS 102 is broadly consistent with Application Note G to FRS 5 *Reporting the Substance of Transactions*.
- Long term contract balances will no longer appear as part of stocks.
- No change to services, if following UITF 40 *Revenue Recognition and Service Contracts*.
- Additional disclosures around revenue required in the notes to the financial statements (by category of revenue).

Section 24. Government Grants

Scope

- Applies to the accounting for government grants. Government grants are assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions.
- Does not apply to government assistance provided in the form of income tax benefits, or to assistance which cannot be reasonably valued or distinguished from the entity's normal trading transactions.

Summary of FRS 102

- Government grants, including non-monetary grants, may not be recognised until there is reasonable assurance that the entity will comply with the conditions attached to them and that the grants are receivable.
- Grants are measured at the fair value of the asset received or receivable.
- Grants are accounted for using either the performance model or the accrual model.
- Performance model – grants are recognised when performance conditions are met (if no performance conditions, may be recognised immediately).
- Accrual model – grants are classified as either relating to assets or revenue:
 - Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Where part of a grant relating to an asset is deferred it is recognised as deferred income.
 - Grants relating to revenue are recognised in income on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate.
- Grants received before the revenue recognition criteria are satisfied are recognised as a liability.
- Grants that become repayable must be recognised as a liability if they meet the definition of a liability.

Full EU-IFRS requirements

- Government grants are recognised as income over the period necessary to match them with the related costs that they are intended to compensate, on a systematic basis.
- Grants relating to assets may either be set up as deferred income (with systematic recognition in profit or loss over the useful life of the asset) or deducted from the asset in arriving at the asset's carrying amount (with recognition in profit or loss by way of a reduced depreciation expense).
- Provides guidance on forgivable loans, non-monetary grants, below-market loans and the repayment of government grants.

Key conversion issues from old UK GAAP

- SSAP 4 *Accounting for government grants* only permitted the 'accrual' model rather than the performance model; under FRS 102 there is a choice between the performance model and the accrual model.
- No longer possible to deduct grants relating to assets from the carrying value of the asset (for companies reporting under the Act this will not be a change).
- Some additional disclosure required around the nature of government grants.

Section 25. Borrowing Costs

Scope

- Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.
- This includes interest expense calculated using the effective interest method, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Summary of FRS 102

- Accounting policy choice to capitalise or expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- Where an entity adopts a policy of capitalisation of borrowing costs, it must be applied consistently to a class of qualifying assets.
- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- If funds form part of general borrowings, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that asset.
- Capitalisation starts from the point when the entity first incurs both expenditure on the asset and borrowing costs and stops when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- Capitalisation is suspended during extended periods where active development of the asset has paused.

Full EU-IFRS requirements

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised as part of the cost of that asset.

**Key conversion
issues from
old UK GAAP**

- Option to capitalise borrowing cost remains.
- Class-by-class accounting policy choice will be available.
- *Transitional provision – may elect to treat the date of transition to FRS 102 as the date on which capitalisation commences, if commencing a policy of capitalisation.*

Section 26. Share-based Payment

Scope

- Specifies accounting for all share-based payment transactions including equity-settled and cash-settled share-based payment transactions, and transactions where either the entity or the recipient has a choice over whether to settle in cash or equity instruments. Also applies to share-based payment transactions that are settled by another group entity on behalf of the entity receiving or acquiring the related goods or services.

Summary of FRS 102

- A share-based payment transaction is defined as a transaction in which the entity:
 - receives goods or services as consideration for its own equity instruments (an equity-settled share-based payment);
 - receives goods or services but has no obligation to settle the transaction with the supplier (an equity-settled share-based payment); or
 - acquires goods or services by incurring liabilities to the supplier for amounts based on the price (or value) of the entity's shares or other equity instruments of the entity or another group entity (a cash-settled share-based payment).
- Goods/services received in a share-based payment transaction are recognised at the time of receipt, with a corresponding increase to equity if via an equity-settled share-based payment transaction, or to liabilities if via a cash-settled share-based payment transaction.
- Where there is a vesting period for share-based payments, the related goods/services are accounted for over that vesting period.
- Equity-settled share-based payment transactions:
 - for transactions with employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the equity instruments at the grant date; and

- transactions with parties other than employees are measured at the fair value of the goods or services received at the date that the entity obtains the goods or services.
- Cash-settled share-based payment transactions:
 - liability is measured at fair value on grant date and at each reporting date, with changes recognised in profit or loss.
- Share-based payment transactions with cash alternatives are accounted for as cash-settled transactions unless the entity has a past practice of settling by issuing equity instruments or the option lacks commercial substance.
- Vesting conditions related to employee service or non-market performance conditions are taken into account when estimating the number of equity instruments expected to vest.
- All market conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the measurement date with no subsequent adjustments made.
- The fair value of equity instruments is determined according to the following hierarchy:
 - observable market prices;
 - observable market data, such as recent transactions or independent valuation of the entity; or
 - use of a valuation method if above methods are impracticable. In the case of share options, the use of an option pricing model is suggested, using market data to the greatest extent possible in relation to inputs.
- If a modification of vesting conditions is to the benefit of employees, the incremental fair value granted is recognised over the remaining vesting period, in addition to the original grant date fair value.
- If a modification is not beneficial to the employees, the services received are accounted for as if the modification had not occurred.

- A cancellation or settlement of an equity-settled share-based payment transaction is accounted for as an acceleration of vesting.
- Where either party has a cash settlement option, the transaction should be accounted for as cash-settled, unless the option lacks economic substance or the entity has a past history of settling with equity.
- Group plans may be accounted for by recognising and measuring the share-based payment expense on the basis of a reasonable allocation of the expense for the group.
- Certain transactions involve share-based payments where the goods or services cannot be specifically identified. Such transactions are accounted for as equity-settled and the unidentified goods or services are measured as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services received, measured at the grant date.
- Qualifying entities can take an exemption from certain disclosure requirements of this section, provided that equivalent disclosures are made in the publicly available consolidated financial statements in which they are consolidated.

Full EU-IFRS requirements

- Specifically excludes transactions with employees in their capacity as owners, equity instruments issued in a business combination in exchange for control and contracts that can be settled net in cash or other financial instruments.
- Includes a rebuttable presumption that the fair value of goods or services received from non-employees can be measured reliably.
- Fair value of equity instruments is determined based on market prices, taking into account all the terms and conditions of the award. Where market prices are not available, fair value is determined using a valuation technique. If the fair value cannot be determined reliably (which should be rare), the equity instruments can be measured at their intrinsic value.
- Arrangements in which the counterparty has a choice of settlement in cash or equity are treated as compound financial instruments.
- For group plans, subsidiaries are required to recognise the share-based payment expense based on the fair value of the equity instruments granted and the portion of the vesting period completed by the employee in the service of the subsidiary.
- Requires detailed disclosures around share-based payment arrangements.

Key conversion issues from old UK GAAP

- Based on FRS 20 *Share-based Payment* and recent updates.
- No explicit option to use intrinsic value in rare cases where the fair value of equity instruments is not reliably measurable.
- Some relaxations: (i) measurement of equity instruments may permit greater judgement by directors; (ii) 'reasonable allocation' basis option for group schemes.
- Fewer disclosure requirements compared to FRS 20 (e.g. inputs into an option pricing model are not required to be disclosed).
- *Transitional provision – no requirement to apply this section to share-based payment arrangements in effect before the date of transition.*

Section 27. Impairment of Assets

Scope

- Impairment occurs when the carrying amount of an asset exceeds its recoverable amount.
- Applies to all assets except those covered by another section:
 - deferred tax assets;
 - assets arising from employee benefits;
 - financial assets within Section 11 or 12;
 - investment property measured at fair value;
 - biological assets measured at fair value; and
 - items within the scope of FRS 103 *Insurance Contracts*.

Summary of FRS 102

- Inventory:
 - impairment loss is recognised in profit or loss when selling price less costs to complete and sell is lower than the carrying amount at the reporting date;
 - when the circumstances that led to impairment no longer exist, the impairment loss is reversed (the reversal is limited to the original amount of the impairment loss).
- Assets other than inventories:
 - recoverable amount is the higher of fair value less costs to sell and value in use;
 - fair value less costs to sell is the amount obtainable from the sale of an asset between knowledgeable willing parties less the costs of disposal;
 - value in use is the present value of future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life;
 - the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate does not reflect risks for which the future cash flow estimates have been adjusted;

- where assets are held for their service potential, value in use may be more appropriately determined as the present value of the asset's remaining service potential plus the net amount the entity will receive from its disposal;
- if recoverable amount is lower than the carrying amount, the difference is recognised in profit or loss as an impairment loss unless the asset is carried at a revalued amount (e.g. property, plant and equipment held at valuation), in which case the difference is treated as a revaluation decrease in accordance with the relevant section of FRS 102;
- assess at each reporting date if there is any indication of impairment, if no indicator then no need to determine recoverable amount;
- examples of indicators of impairment are provided in the standard;
- an indication of impairment may also indicate that the useful life, depreciation method or residual value needs to be reviewed;
- if not possible to determine recoverable amount of asset, then determine the recoverable amount of the CGU to which it belongs;
- a CGU is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- an impairment loss recognised for a CGU is allocated first to goodwill within the CGU and then pro-rata to other assets based on their carrying amounts; and
- reversal of prior impairment losses is permitted in certain instances.

- Goodwill:
 - goodwill acquired in a business combination is allocated to each CGU expected to benefit from the synergies of the combination;
 - for the purposes of impairment testing, the carrying amount of a CGU is grossed up to include goodwill attributable to non-controlling interest;
 - if goodwill cannot be allocated to CGUs on a non-arbitrary basis, it is tested for impairment by determining the recoverable amount of either the acquired entity, if it has not been integrated, or the entire group of entities if it has been integrated; and
 - reversal of an impairment loss recognised for goodwill is permitted in certain instances.

Full EU-IFRS requirements

- Intangible assets not yet available for use, those with an indefinite useful life and goodwill are tested annually for impairment, whether any indicators of impairment exist or not.
- Goodwill acquired in a business combination is always required to be allocated to each CGU (or group of CGUs) expected to benefit from the synergies of the combination (no exception for arbitrary allocations).
- Grouping of cash-generating units for impairment testing of goodwill cannot result in a grouping being larger than an operating segment.
- Impairment recognised on goodwill may not be reversed.

Key conversion issues from old UK GAAP

- Principles consistent with FRS 11 *Impairment of Fixed Assets and Goodwill*.
- Removal of indefinite lives for goodwill and intangible assets results in no automatic requirement for annual impairment tests; instead they are only required where indicators exist.
- No automatic 'first year' review requirement in respect of goodwill.
- Allocation of impairment to CGUs still requires allocation to goodwill first, but intangible assets are no longer impaired before all other assets.

Section 28. Employee Benefits

Scope

- Applies to all forms of consideration given by an entity in exchange for service rendered by employees, including the following, but excluding share-based payment transactions:
 - short-term benefits;
 - post-employment benefits;
 - other long-term benefits; and
 - termination benefits.

Summary of FRS 102

- The cost of providing employee benefits is recognised in the period in which employees have become entitled to the benefits.
- Short-term employee benefits:
 - are recognised at the undiscounted amount of benefits expected to be paid in exchange for services;
 - cost of accumulating compensated absences are recognised when employees render service that increase their entitlement to future compensated absences (e.g. holiday pay);
 - costs of non-accumulating compensated absences are recognised when they occur; and
 - profit-sharing and bonus payments are recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefit plans are classified as either defined contribution or defined benefit plans.
- Defined contribution plans: expenses are recognised in the period in which the contribution is payable.

- Defined benefit plans:
 - defined benefit liability is recognised as the net total of the present value of defined benefit obligation under the plan minus the fair value of plan assets at the reporting date;
 - the projected unit credit method is applied to measure the defined benefit obligation;
 - use of an independent actuary is not required by the FRS and a comprehensive valuation is not required annually, if the principal actuarial assumptions have not changed significantly;
 - curtailments or settlements will result in a decrease to or elimination of the defined benefit obligation and any resulting gain should be recognised in profit or loss;
 - costs arising from employee service and net interest on the net defined benefit liability are recognised in profit or loss;
 - actuarial gains and losses and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (remeasurement of the net defined benefit liability) are recognised in other comprehensive income;
 - a plan surplus is only recognised to the extent that it is possible to recover the surplus through reduced contributions in the future or through refunds from the plan; the effect of any restriction on the surplus is recognised in OCI;
 - any virtually certain right to reimbursement is recognised as a separate asset; and
 - where defined benefit accounting is applied, an amendment to FRS 102 clarifies that entities do not need to recognise an additional liability in respect of any agreement to fund a deficit (such as a schedule of contributions).

- Group schemes under common control:
 - must be either allocated throughout the group, if there is a contractual arrangement or stated policy, or accounted for by the entity that is legally responsible for the scheme; and
 - for entities participating in group schemes under common control, certain disclosures may be made by cross-reference to group financial statements.
- Multi-employer plans:
 - for schemes meeting the definition of a multi-employer plan or state plan, if sufficient information is not available to use defined benefit accounting, an entity can account for the plan as if it were a defined contribution scheme; and
 - where an entity has entered into an agreement to fund a deficit on the scheme (such as a schedule of contributions) and is accounting for a multi-employer defined benefit scheme as if it were a defined contribution scheme, the entity must recognise a liability (and corresponding P&L expense) for contributions payable to fund that deficit.
- Other long-term employee benefits are recognised and measured in the same way as post-employment benefits under a defined benefit plan, but with any change in the value of the liability or asset recognised in profit or loss, rather than OCI.
- Termination benefits are recognised when the entity is demonstrably committed to terminate the employment of employees before normal retirement date or as a result of an offer to encourage voluntary redundancy.

Full EU-IFRS requirements

- Similar to FRS 102, which is based upon the revised IAS 19 (2011) *Employee Benefits*, but with some additional guidance and disclosure requirements for defined benefit schemes.
- Entities may need to recognise an additional liability where there is an agreed schedule of contributions for a defined benefit pension scheme, as this would constitute a minimum funding requirement (MFR) under IFRIC 14 *IAS 19 – The Limit On a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Key conversion issues from old UK GAAP

- Comprehensive coverage of all employee benefits (excluding share-based payments).
- Employee benefits other than defined-benefit (DB) pension schemes: consistent with UK practice, but specific guidance on holiday pay accrual; discounting required for termination benefits payable > 12 months.
- No requirement for external actuarial valuation for a defined benefit pension scheme.
- Multi-employer exemption not available for schemes under common control (i.e. group pension plans):
 - must allocate to individual employer entities if an agreement to do so exists, or otherwise reflect in the entity that has legal responsibility for the scheme.
- A pension asset or liability may no longer be presented net of any related deferred tax asset or liability.
- ASB Reporting Statement on Retirement Benefits is withdrawn on application of FRS 102 therefore disclosures may be somewhat reduced for those currently complying with that Reporting Statement.

Section 29. Income Tax

Scope

- Covers accounting for current and deferred tax for transactions or other events recognised in the financial statements and for deferred tax resulting from a business combination.
- Income tax includes all domestic and foreign taxes that are based on taxable profit.
- It also includes withholding taxes that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.
- This section incorporates accounting requirements for VAT and other similar sales taxes that are not income taxes.

Summary of FRS 102

- Current tax liabilities and assets are recognised for current and prior period taxes, measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date.
- In general, deferred tax is recognised in respect of all timing differences between taxable profit and total comprehensive income at the reporting date, with some specific instances addressed:
 - unrelieved tax losses and other deferred tax assets are recognised only where it is probable (i.e. more likely than not) that they will be recovered;
 - deferred tax is recognised where income/ expenses from a subsidiary, associate, branch or interest in a joint venture have been recognised and will be liable to tax in a future period, except where the reporting entity can control the reversal of the timing difference and it is probable that the difference will not reverse in the foreseeable future; and
 - deferred tax is not recognised on permanent differences.
- Deferred tax is also recognised in business combinations where the deductible/taxable amount in respect of an acquired asset/liability (other than goodwill) differs from the amount at which the asset/liability is recognised, with a corresponding adjustment made to goodwill.

- Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.
- Specific guidance is provided for revalued non-depreciable assets and investment properties for which recovery through sale should be presumed.
- Current and deferred tax assets and liabilities are not discounted.
- Current and deferred tax is recognised as tax expense in profit or loss except to the extent that the tax is attributable to an item of income or expense recognised as other comprehensive income or an item recognised in equity.
- Dividends payable and similar amounts include withholding tax but exclude other taxes.
- Withholding tax suffered on dividends receivable and similar amounts are shown as part of the tax charge.
- Turnover and expenses must exclude VAT and similar sales taxes.
- Offsetting of current tax assets and liabilities is permitted if and only if the entity has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
- Deferred tax assets and liabilities are offset if and only if (1) the entity has a legally enforceable right to offset current tax assets and liabilities and (2) the deferred tax assets and liabilities relate to the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities on a net basis or to realise assets/settle liabilities simultaneously in future periods.

Full EU-IFRS requirements

- Temporary difference approach means deferred tax arises when the tax base of an asset or liability differs from its carrying amount.
- Tax base of assets and liabilities is determined based on the manner of expected recovery or settlement of the carrying amount of the asset or liability.
- Taxable temporary differences do not arise from the initial recognition of goodwill or of assets and liabilities not acquired in a business combination that at the time of the transaction do not affect accounting or taxable profit (the 'initial recognition' exemption).

Key conversion issues from old UK GAAP

- Timing difference approach retained as under old UK GAAP, but with additional recognition requirements in certain circumstances.
- Will give rise to new deferred tax on:
 - revaluation gains/losses on non-monetary assets; and
 - differences between the fair value of assets (liabilities) recognised in a business combination and the corresponding values ascribed for tax purposes.
- More deferred tax may arise in relation to unremitted earnings in consolidated financial statements – rather than having to provide deferred tax only where distributions are virtually certain, deferred tax must now be provided unless any future reversals can be controlled and it is probable that reversal will not occur in the foreseeable future.
- No discounting of current or deferred tax balances.

Section 30. Foreign Currency Translation

Scope

- Applies to foreign currency transactions and foreign operations in the financial statements of an entity.
- Prescribes the translation of financial statements into a presentation currency.
- Notes that Section 12 addresses hedge accounting of foreign currency items.

Summary of FRS 102

- Functional currency is the currency of the primary economic environment in which an entity operates.
- On initial recognition, foreign currency transactions are recognised in the functional currency using the spot exchange rate at the date of the transaction.
- At the end of each reporting period:
 - monetary items are retranslated using the closing rate;
 - non-monetary items carried at historical cost continue to be measured using the exchange rate at the date of the transaction; and
 - non-monetary items measured at fair value are measured using the exchange rate on the date when fair value was determined.
- Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those used on initial recognition, are recognised in profit or loss (unless part of the entity's net investment in a foreign operation; see below).
- The exchange component of a gain or loss on a non-monetary item is recognised where the gain or loss on the non-monetary item is recognised. This can be either in profit or loss, or other comprehensive income.
- In the consolidated financial statements exchange differences arising on a monetary item that forms part of the net investment in a foreign operation is recognised in other comprehensive income and reported in equity. Such exchange differences are not reclassified to profit or loss on disposal of the net investment.

- The effect of a change in functional currency is accounted for prospectively from the date of the change.
- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy is translated into a different presentation currency using the following procedures:
 - assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
 - income and expenses for each period presented are translated at the exchange rates at the date of the transactions; and
 - all resulting exchange difference are recognised in other comprehensive income and not recycled on disposal.
- Goodwill arising from the acquisition of a foreign operation and any fair value adjustments on acquisition are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

Full EU-IFRS requirements

- In the consolidated financial statements exchange differences recognised in other comprehensive income that arose from monetary items treated as part of the net investment in a foreign operation must be accumulated in a separate component of equity.
- Such differences are recycled to profit or loss on disposal of the foreign operation.

**Key conversion
issues from
old UK GAAP**

- FRS 102 is based on FRS 23 *The Effects of Changes in Foreign Exchange Rates* and not SSAP 20 *Foreign currency translation*:
 - more specific and mandatory guidance compared to SSAP 20;
 - introduces possibility that financial statements may be presented in a different currency (presentational vs functional currency);
 - identifies 'functional currency' rather than 'local currency' which may affect structures that rely on 'local currency' concept (e.g. where a branch/subsidiary acts as an extension of the reporting entity);
 - all hedging now covered under financial instruments sections; and
 - no use of forward/contracted rate for monetary items.
- No concept of 'permanent as equity'; long-term loans previously treated as such in individual financial statements will need to be translated with exchange differences recognised in profit or loss.
- No longer possible to apply net investment hedging to an investment in a subsidiary using a foreign exchange loan in individual financial statements (although may still be possible for a branch).

Section 31. Hyperinflation

Scope

- Applies to the financial statements of an entity whose functional currency is that of a hyperinflationary economy.

Summary of FRS 102

- Provides indicators of hyperinflation.
- The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.
- Comparative information for prior periods is restated into the same current measuring unit.
- Assets and liabilities not expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.
- Monetary items are not restated because they are expressed in terms of the current measuring unit.
- All items in the statement of comprehensive income (and income statement if presented) are restated by applying the change in general price index from the date of initial recognition.
- All items in the statement of cash flows are stated in terms of the measuring unit current at the end of the reporting period.
- The gain or loss on the net monetary position is included in profit or loss.
- When an economy ceases to be hyperinflationary, the amounts expressed in the presentation currency at the end of the previous reporting period become the basis for the subsequent carrying amounts.

Full EU-IFRS requirements

- Similar to the requirements for FRS 102, but with some additional application guidance in IAS 29 *Financial Reporting in Hyperinflationary Economies* and IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*.

Key conversion issues from old UK GAAP

- More specific and prescriptive requirements.
- No longer able to use a stable currency (per UITF 9 *Accounting for operations in hyper-inflationary economies*) as an alternative functional currency.
- FRS 26 adopters will have had to adopt FRS 24 *Financial Reporting in Hyperinflationary Economies* and will therefore see less of an impact on transition.

Section 32. Events after the End of the Reporting Period

Scope

- Describes principles for recognising, measuring and disclosing events after the end of the reporting period.

Summary of FRS 102

- Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- The financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period (known as adjusting events).
- The financial statements are not adjusted to reflect events that are indicative of conditions that arose after the end of the reporting period. The nature and impact of such events are disclosed (known as non-adjusting events).
- Dividends declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period.
- Financial statements should not be prepared on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Full EU-IFRS requirements

- IAS 10 *Events After the Reporting Period* is consistent with FRS 102.

Key conversion issues from old UK GAAP

- Principles consistent with FRS 21 *Events after the balance sheet date*.
- Dividends proposed after the year-end may be presented as a separate component of retained earnings.

Section 33. Related Party Disclosures

Scope

- Requires disclosure in the financial statements to draw attention to the possibility that the financial position and profit or loss have been affected by the existence of related parties and transactions and outstanding balances with such parties.
- Disclosures are not required of transactions entered into between two or more members of a group as long as any subsidiary which is a party to the transaction is wholly-owned by such a member.

Summary of FRS 102

- Disclosure is required of:
 - relationships between a parent and its subsidiaries;
 - key management personnel compensation in total (exemption available for qualifying entities); and
 - related party transactions.
- For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the relationship, as well as relevant transactions, outstanding balances and commitments.

Full EU-IFRS requirements

- Consistent with FRS 102, but without the exemption provided for transactions between wholly-owned members of a group (although this exemption is available for entities applying FRS 101).

**Key conversion
issues from
old UK GAAP**

- Definition of a related party is consistent with FRS 8 *Related Party Disclosures*.
- Some disclosure changes:
 - disclosure of key management personnel remuneration in total (although qualifying entities can take exemption from this requirement);
 - separate disclosure for each type of related party (parent, subsidiary, joint venture, key management personnel, etc);
 - additional disclosures re outstanding balances (e.g. terms and conditions, guarantees, etc); and
 - no explicit requirement to disclose the name of the related party.

Section 34. Specialised Activities

Scope

- Provides guidance on financial reporting by entities involved in agriculture, extractive activities, and service concessions. It also addresses specific requirements for financial institutions, public benefit entities and retirement benefit plans, and provides accounting requirements for heritage assets, funding commitments and incoming resources from non-exchange transactions.

Summary of FRS 102

- Agriculture:
 - accounting policy choice by class of biological asset between cost and FVTPL (but if FVTPL selected, cannot revert to cost model).
- Extractive activities:
 - apply the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*.
- Service concession arrangements:
 - provides guidance on how to account for arrangements whereby a public sector body, a public benefit entity or other entity (the grantor) contracts with an operator to construct (or upgrade), operate and maintain infrastructure assets for a specified period of time (concession period);
 - grantors must apply the finance lease liability model; and
 - operators must apply either the financial asset model or the intangible asset model, as appropriate.
- Financial institutions:
 - additional disclosures required around capital management and market, liquidity and credit risk, based on IFRS 7 *Financial Instruments: Disclosures*; and
 - these disclosures are not required for retirement benefit plans.

- Retirement benefit plans:
 - gives the required statements to be presented by retirement benefit plans and the line items to be included therein; and
 - additional disclosures required around financial instruments including the nature and extent of risks arising from the use of financial instruments.
- *Public benefit entities (PBEs):
 - extensive specific guidance on PBE combinations which differentiates between combinations that are in substance a gift and those which are mergers:
 - in substance a gift = accounted for in accordance with Section 19, but no goodwill/negative goodwill is recognised; instead such amounts are recognised in profit or loss; and
 - in substance a merger = apply merger accounting as described in Section 19.
 - Incoming resources from non-exchange transactions:
 - recognised when performance conditions are met or (if no performance conditions) when resources are received or receivable; and
 - incoming resources are measured at the fair value of resources received/receivable, unless they would have been purchased by the entity had they not been donated, in which case they are measured at the value to the entity.
 - Accounting for concessionary loans is also addressed.

- Heritage assets:
 - separate recognition in the balance sheet is required;
 - the cost or revaluation model may be applied, assuming such information is available;
 - if such information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets are not recognised in the balance sheet, but must be disclosed;
 - specific disclosures are required, including the policy for the acquisition, preservation, management and disposal of heritage assets.
- Funding commitments:
 - a liability and expense is only recognised if the commitment meets the definition of a liability, the obligation is such that it cannot be withdrawn from and the entitlement of the other party to the resources does not depend on performance-related conditions; and
 - performance-related commitments are recognised when the performance criteria are met.

Full EU-IFRS requirements

- Agriculture:
 - exemption from fair value measurement only permitted when fair value cannot be measured reliably.
- Extractive activities:
 - as above, IFRS 6 applies.
- Service concession arrangements:
 - IFRIC 12 *Service Concession Arrangements* is consistent with IFRS 102 but includes more detail. It addresses accounting by operators only.
- Financial institutions:
 - as above, but even more extensive disclosures required by IFRS 7 and IFRS 13 *Fair Value Measurement* in respect of financial instruments.

Full EU-IFRS requirements (continued)

- Retirement benefit plans:
 - consistent as above, but has more measurement guidance.
- There is no specific guidance in respect of the other areas addressed by FRS 102.

Key conversion issues from old UK GAAP

- Agriculture – may give opportunity for increased usage of fair value, but cost option remains.
- Extractive activities – transitional provision for measurement of certain oil and gas assets.
- Service concessions:
 - the IFRS control approach supersedes the ‘risk/reward’ approach of FRS 5 Application Note F;
 - additional accounting requirements now included for grantors; and
 - *transitional provision – operators do not have to apply FRS 102 accounting to service concession arrangements that were in place before the transition date.*
- Financial institutions – unlikely to have a significant impact for those that had previously adopted FRS 29.
- *Retirement benefit plans and PBEs – additional specific guidance; a number of SORPs will have been revised for use with FRS 102.
- *Transitional provision – PBE combinations effected prior to the transition date need not be restated.*

Section 35. Transition to this FRS

Scope

- Applies to first-time adopters of FRS 102 regardless of whether an entity has previously applied full IFRSs or old GAAP.
- An entity can be a 'first-time adopter' more than once (i.e. if an entity switched from FRS 102 to, say, IFRSs and then changed back to FRS 102 the following year, Section 35 may be applied again on re-adoption).

Summary of FRS 102

- The date of transition is the beginning of the earliest period for which an entity presents full comparative information in accordance with FRS 102.
- An opening or 'third' balance sheet needs to be prepared, but is not required to be presented on transition.
- In the opening balance sheet, the entity should:
 - recognise all assets and liabilities as required by FRS 102;
 - not recognise items if FRS 102 does not permit recognition;
 - reclassify items previously recognised as required by the FRS; and
 - apply FRS 102 in measuring all recognised assets and liabilities.
- Any adjustments required as a result of changes of accounting policies on adoption of FRS 102 are recognised directly in equity at the date of transition.
- An entity does not retrospectively change the accounting it followed previously for the following transactions (mandatory exceptions):
 - financial assets and liabilities that have been derecognised prior to transition;
 - accounting estimates;
 - discontinued operations; and
 - measurement of non-controlling interests.

- A number of specific optional exemptions are provided which an entity can apply in preparing its first financial statements that comply with FRS 102 (see 'Key conversion issues from old UK GAAP' below).
- Contains a general exemption from retrospective application when this would be impracticable (disclosure required).
- Reconciliations and explanations of the impact of adoption of FRS 102 are required.

Full EU-IFRS requirements

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires an opening or 'third' balance sheet, and related notes, to be presented on transition.
- Includes additional optional exemptions from retrospective application for transactions and balances that are not applicable to FRS 102, including the following:
 - cumulative translation differences for all foreign operations are deemed to be zero at the date of transition;
 - the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition; and
 - certain designations of financial instruments may be made at the date of transition.
- Does not include all of the same transitional provisions as FRS 102 (e.g. there is no exemption for pre-existing lease incentives) and some of those that look superficially the same are different in the detail, e.g. the exemption from restating pre-transition date business combinations in IFRS 1 contains specific requirements around when the goodwill balance should and should not be adjusted.
- No general exemption when retrospective application is considered impracticable.

Key conversion issues from old UK GAAP

- Restated comparative information required (unless impracticable) but no third balance sheet required to be presented.
- Transitional provisions are as follows:
 - business and PBE combinations that took place pre-transition are not required to be restated;
 - share-based payment arrangements set up pre-transition are not required to follow Section 26;
 - PPE, investment property or intangibles may be revalued to fair value at transition and that fair value may be used as 'deemed cost' going forward;
 - for PPE, investment property or intangibles previously held at valuation, that previous GAAP valuation may be used as 'deemed cost' going forward;
 - parents with investments in subsidiaries, associates or joint ventures measured at cost in separate financial statements may use previous carrying amount as 'deemed cost';
 - compound instruments need not be separated if the liability component is not outstanding at the transition date;
 - operators of service concession arrangements do not have to apply FRS 102 accounting to arrangements entered into before the transition date;
 - certain oil and gas assets may be measured at the amount determined under a previous GAAP;
 - arrangements existing at the date of transition may be assessed for whether they contain a lease at the date of transition rather than when the arrangement was entered into;
 - decommissioning liabilities included in the cost of PPE may be measured at the date of transition rather than the date when the obligation originally arose;

- dormant companies may retain their accounting policies for measurement of assets, liabilities and equity until the balances change or the company undertakes any new transactions;
 - the carrying value of any capitalised development costs may be used as 'deemed cost';
 - borrowing costs may be capitalised from the date of transition;
 - lease incentives on pre-existing leases can continue to be recognised in the manner previously recognised;
 - where a subsidiary becomes a first-time adopter later than its parent, it may remeasure its assets and liabilities either based on the parent's date of transition or the subsidiary's date of transition; and
 - entities have the choice to commence, continue, or end hedge accounting on transition to FRS 102.
- For entities applying the recognition and measurement provisions of Sections 11 and 12 in full, retrospective designation can be made on a hedge-by-hedge basis for most types of hedge until the first FRS 102 financial statements are authorised for issue.
 - Entities applying the recognition and measurement requirements of IFRS 9 and/or IAS 39 can choose to apply the transitional provisions for hedge accounting in IFRS 1 on the date of transition as an alternative to full retrospective application. Limited retrospective designation is possible after the date of transition but before the first FRS 102 financial statements are authorised for issue.
 - If it is impracticable to restate opening balances, disclosure of such omissions must be given.

Finding out more

Listed groups' transition to IFRSs in 2005 demonstrated the necessity of planning for change and the substantial benefits this offers. Our integrated team of accounting and taxation specialists can assist you in managing the impact of the changes to UK financial reporting.

Key publications produced by Deloitte to assist with the transition, which your Deloitte contact would be more than happy to share with you, include:

- Changing your GAAP – an assessment of the financial reporting frameworks available, key accounting differences and their associated tax impacts, frequently asked questions and a broader consideration of the impact of changing framework;
- Finding the GAAPs – an illustrative set of FRS 102 financial statements, highlighting the differences from current UK GAAP;
- Freeing up the GAAPs – an illustrative set of FRS 101 financial statements, highlighting the differences from full IFRSs;
- Aligning the GAAPs – an illustrative set of FRS 101 financial statements, highlighting the differences from old UK GAAP; and
- Deloitte GAAP – our comprehensive suite of financial reporting manuals covering UK legal regulatory requirements, the new UK financial reporting framework and reporting under IFRSs.

If you would like further, more detailed information or advice, or to discuss how this would affect you, please contact your local Deloitte partner or one of the contacts listed at the beginning of this publication.

A number of Deloitte resources and publications on the new financial reporting regime can be found at www.ukaccountingplus.co.uk.

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