FRS 102 – Are you ready?

The adoption of FRS 102 is fast approaching – do you know what's changing and when?

What is FRS 102?

FRS 102 is a new standard entitled "The Financial Reporting Standard applicable in the UK and Republic of Ireland". It replaces current UK GAAP, and its implementation will have a significant impact on the financial statements of those required to adopt it.

Who has to prepare accounts under FRS 102?

The majority of large and medium sized private companies will be adopting FRS 102, along with other entities preparing accounts under UK GAAP (currently excluding those applying the FRSSE).

When will this happen?

For periods beginning on or after 1 January 2015. The application of FRS 102 requires a restatement of comparatives and the brought forward position for that year as if certain elements of the standard had been in place at the transition date (1 January 2014 or equivalent). Early adoption is available.

Main areas of change

Property, Plant and Equipment (PPE)

Under FRS 102 companies have the one-off option of changing the value of their PPE to "deemed cost" at transition, meaning there is the option to assign to specific items/classes of asset:

- Original cost or;
- Fair value at transition date or;
- Value under revaluation method

There is also an option to change the method of recognition from original cost to valuation and vice versa from the transition date (although this should be recognised as a change in accounting policy).

Intangible assets and goodwill

Intangible assets follow the same treatment as with PPE with the option to change the cost to deemed cost" as above.

The period of amortisation is now capped at five years unless there is a reliable estimate of the life being longer (under existing UK GAAP the assumed maximum is 20 years). No indefinite useful life is allowable.

Investment Properties

The definition of investment properties now also includes those let to group companies (under existing UK GAAP these were held as PPE). The revaluation of the properties will be recognised in the income statement potentially resulting in more volatile results.

Business Combinations

Under current UK GAAP intangible assets arising on acquisition should be treated as part of goodwill unless they can be sold or transferred separately. Under FRS 102 there is no such restriction and therefore on acquiring another business a company is now required to recognise all the identifiable assets of the acquisition.

Financial Instruments

- Certain types of loans will be required to be held at present value and unwound over the life of the loan.
- Equity share investments are now required to be included at fair value in the accounts where fair value can be reliably estimated for that investment. Fair value adjustments are recognised in the income statement giving rise to more volatile results.
- FRS 102 requires all financial instruments of these types to be "on-balance sheet". Therefore if they are not hedged they must be recognised as a financial asset or liability at fair value. Any fair value adjustments will be recognised in the income statement.
- Interest rate swaps, foreign exchange, interest rate forwards/futures etc. now have the option to be designated as a hedge. Under existing UK GAAP you could recognise a sale in $ at a forward contract rate. Under FRS 102 the sale should be accounted for separately unless a hedging relationship is identified.

Leases

The finance lease "90% test" does not exist under FRS 102. When considering if a lease is operating or finance more consideration is placed on other factors such as the length of the lease, transfer of ownership at the end of the lease, or specified nature of the leased item.

Government Grants

Companies now have a choice between the performance model and the accruals model (existing model). The performance model means that the grant would be recognised in accordance with the performance criteria applicable.

Borrowing costs

The choice of treatment still stands for borrowing costs capitalisation; however a company can choose to retrospectively change the treatment from transition date for an asset.

Defined Benefit Pension Schemes

Rather than actuarial gains and losses being taken to the STRGL, under FRS 102 re-measurements are taken to Other Comprehensive Income. Group schemes now need to be split out for component companies and recognised in individual company accounts.

Employee Benefits

Under FRS 102 companies now specifically need to account for holiday pay accruals.

Deferred Tax

Deferred tax is now required to be recognised on the revaluation of assets, including goodwill, intangible assets, and fair value adjustments on acquisition.

What will the impact be?

A number of changes in accounting policies and treatments detailed above will result in a changed profit and net asset position. This may affect profit related pay (e.g. bonuses/commissions), tax liabilities, and could change the meeting of bank covenants. Consideration of these in advance will enable a smoother transition to take place.