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The Institute of Certified Public Accountants in Ireland

Trainee Accountant Webinar

March 2016

The Differences between full IFRS and FRS 102

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Investment property

Investment property

IFRS

Accounting policy choice:

- measured at fair with changes in profit or loss or
- at depreciated cost.

Dalata Hotel Group Plc

(m) Investment property

Investment property is held either to earn rental income, or for capital appreciation (including future re-development) or for both, but not for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs, (or fair value when acquired through business combinations) and subsequently valued by professional external valuers at their respective fair values. The difference between the fair value of an investment property at the reporting date and its carrying value prior to the external valuation is recognised in profit or loss.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

The Group's investment properties are valued by qualified valuers on an open market value basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

13 Investment properties

	€'000
Cost or valuation	
At 1 January 2014	-
Acquisitions through business combinations	1,248
At 31 December 2014	**1,248**

Investment properties comprise two commercial properties which were acquired on 29 August 2014 as part of the Holiday Inn, Pearse Street acquisition (see Note 9). The investment properties are leased to third parties for lease terms of 25 and 30 years, with 16 and 12 years remaining.

Changes in fair values are recognised in profit or loss. There was no change in the fair value between the acquisition date and the year end.

The value of the Group's investment properties at 31 December 2014 reflect an open market valuation carried out in December 2014 by independent external valuers having appropriately recognised professional qualifications and recent experience in the location and category of property being valued. The valuations performed were in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

The fair value measurement of the Group's investment property has been categorised as Level 3 fair value based on the inputs to the valuation technique used.

The valuation technique used is consistent with that used for the Group's own-use property (see Note 12).

The significant unobservable inputs in the measurement of fair value of investment property were:

- Expected EBITDA based on market rental growth
- Risk adjusted discount rate of 11% (Years 1-10)
- Terminal (Year 10) capitalisation rate (8%)

The estimated fair value under this valuation model would increase or decrease if:

- EBITDA was higher or lower than expected
- The risk adjusted discount rate and terminal capitalisation rate was higher or lower

Greencore Plc

Investment Property

Investment property is shown at cost less depreciation and any impairment. The cost of investment property comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Investment property is depreciated so as to write off the cost, less residual value, on a straight-line basis over the expected life of each property. Freehold buildings held as investment property are depreciated over their expected useful life, normally assumed to be 40-50 years. Freehold land is not depreciated. Rental income arising on investment property is accounted for on a straight-line basis over the lease term of the ongoing leases and is recognised within other income.

In relation to the recognition of income on the disposal of property, income is recognised when there is an unconditional exchange of contracts, or when all necessary terms and conditions have been fulfilled.

14. Investment Property

	2013 £'000	2012 £'000
Opening net book amount	**31,961**	34,087
Additions	**510**	272
Disposals	**(271)**	(1,601)
Impairment	**(3,794)**	–
Currency translation adjustment	**464**	(797)
Closing net book amount	**28,870**	31,961
Analysed as:		
Cost	**28,870**	31,961
Accumulated depreciation	**–**	–
Net book amount	**28,870**	31,961

The fair value of the Group's investment properties at 27 September 2013 was £30.3 million (2012: £39.2 million). The valuation was carried out by the Group Property Director and was arrived at by reference to location, market conditions and status of planning applications.

The impairment charge in the current year arose in the Ingredients and Property Segment. A charge of £3.79 million arose on the Group's Irish property portfolio due to the re-zoning of a large portion of the Group's property assets in Ireland, together with the continued softening of demand for land and the related impact of prices being achieved on sales. This charge is included as an exceptional item in operating costs in the Income Statement.

Investment Property

FRS 102

- Measurement is at fair value, if reliably determinable, with changes in profit or loss
- Otherwise measured at depreciated cost.

Musgrave Group

(iii) Investment properties

Investment properties are stated at open market value as defined by the Royal Institute of Chartered Surveyors. Surpluses and deficits on valuation are taken to the profit and loss account. Depreciation is not provided for on investment properties.

12 Tangible assets - continued

	Land and buildings	Shop properties	Investment properties
	€m	€m	€m
Accumulated depreciation			
At 1 January 2014	11.5	94.1	-
Charge for year in 2014 (note 5)	2.1	17.8	-
Provision for impairment in 2014 (note 5)	0.1	17.9	-
Disposals	(0.4)	(3.7)	-
Translation adjustment	0.4	2.9	-
At 27 December 2014	13.7	129.0	-
Net book amounts			
At 1 January 2013			
- valuation	111.5	-	53.0
- cost	9.4	256.9	-
Accumulated depreciation	(2.6)	(76.5)	-
	118.3	180.4	53.0
At 31 December 2013			
- valuation	110.6	-	49.4
- cost	9.4	293.1	-
Accumulated depreciation	(11.5)	(94.1)	-
	108.5	199.0	49.4
At 27 December 2014			
- valuation	103.7	-	28.5
- cost	10.0	313.1	-
Accumulated depreciation	(13.7)	(129.0)	-
	100.0	184.1	28.5

Property, Plant and equipment

Key Issues

IFRS and FRS 102 are virtually identical in recognition and measurement rules and cover the following key issues:

- Initial Cost
- Revaluation; and
- Depreciation

NB On transition from old Irish Gaap to FRS 102 can adopt last valuation as the entity's deemed cost and can even carry out a once off valuation at the date of transition which also becomes the entity's deemed cost

C & C Plc

PROPERTY, PLANT & EQUIPMENT

Property (comprising land and buildings) is recognised at estimated fair value with the changes in the value of the property reflected in other comprehensive income, to the extent it does not reverse previously recognised losses, or as an impairment loss in the income statement to the extent it does not reverse previously recognised revaluation gains. The fair value is based on estimated market value at the valuation date, being the estimated amount for which a property could be exchanged in an arm's length transaction, to the extent that an active market exists. Such valuations are determined based on benchmarking against comparable transactions for similar properties in similar locations as those of the Group or on the use of valuation techniques including the use of market yields on comparable properties. If no active market exists or there are no other observable comparative transactions, the fair value may be determined using a valuation technique known as a Depreciated Replacement Cost approach.

Plant & machinery is carried at its revalued amount. In view of the specialised nature of the Group's plant & machinery and the lack of comparable market-based evidence of similar plant sold, upon which to base a market approach of fair value, the Group uses a Depreciated Replacement Cost approach to determine a fair value for such assets.

Depreciated Replacement Cost is assessed, firstly, by the identification of the gross replacement cost for each class of plant & machinery. A depreciation factor derived from both the physical and functional obsolescence of each class of asset, taking into account estimated residual values at the end of the life of each class of asset, is then applied to the gross replacement cost to determine the net replacement cost. An economic obsolescence factor, which is derived based on current and anticipated capacity or utilisation of each class of plant & machinery as a function of total available production capacity, is applied to determine the Depreciated Replacement Cost.

Motor vehicles & other equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group.

Property, plant & equipment, other than freehold land and assets under construction, which are not depreciated, were depreciated using the following rates which are calculated to write-off the value of the asset, less the estimated residual value, over its expected useful life:

Land and Buildings	
Land	n/a
Buildings - ROI, US, Portugal	2% straight line
Buildings – UK	2% reducing balance
Plant and Machinery	
Storage tanks	10% reducing balance
Other plant & machinery	15-30% reducing balance
Motor vehicles and other equipment	
Motor vehicles	15% straight line
Other equipment incl returnable bottles, cases and kegs	5-25% straight line

The residual value and useful lives of property, plant & equipment are reviewed and adjusted if appropriate at each reporting date to take account of any changes that could affect prospective depreciation charges and asset carrying values. When determining useful economic lives, the principal factors the Group takes into account are the intensity at which the assets are expected to be used, expected requirements for the equipment and technological developments.

On disposal of property, plant & equipment the cost or valuation and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement and any amounts included within the revaluation reserve transferred to the retained income reserve.

The carrying amounts of the Group's property, plant & equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised when the carrying amount of an asset or its cash generation unit exceeds its recoverable amount (being the greater of fair value less costs to sell and value in use). Impairment losses are debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve account in respect of that asset with the remaining balance recognised in the income statement.

A revaluation surplus is credited directly to other comprehensive income and accumulated in equity under the heading of revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, where it is first credited to the income statement to the extent of the previous write down.

Musgrave Group

Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working location and condition for its intended use.

(i) Land and buildings (including leasehold improvements) and shop properties

Land and buildings include freehold and leasehold premises and offices. Land and buildings and shop properties are stated at cost (or deemed cost for land and buildings held at valuation at the date of transition to FRS 102) less accumulated depreciation and accumulated impairment losses.

(ii) Plant and machinery, equipment and motor vehicles

Plant and machinery, equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Investment properties

Investment properties are stated at open market value as defined by the Royal Institute of Chartered Surveyors. Surpluses and deficits on valuation are taken to the profit and loss account. Depreciation is not provided for on investment properties.

(iv) Construction in progress

Assets in the course of construction are stated at cost and are not depreciated.

Musgrave Group

(v) Depreciation and residual values
Land, investment properties and construction in progress is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

• Buildings	15 to 50 years
• Shop properties	3 to 25 years
• Plant, machinery and equipment	3 to 20 years
• Motor vehicles	2 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(vi) Subsequent additions and major components
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(vii) De-recognition
Tangible assets are derecognised on disposal or when no future economic benefit is expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

(viii) Impairment
Where the estimated recoverable value of a tangible asset is less than its carrying value, a provision for impairment is recorded to reduce the tangible asset to its recoverable value.

IFRS

Capitalisation of borrowing costs required during period it takes to make or construct a qualifying asset

FRS 102

Choice of capitalising or expensing borrowing costs during period it takes to make or construct a qualifying asset.

Intangible assets

Intangible assets

IFRS

- Development costs must be capitalised if specific criteria are met. Otherwise they are expensed.

FRS 102

- Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.

Intangible assets

IFRS

- An intangible asset may have an indefinite life, in which case it is not amortised but subject to annual impairment reviews, or a definite life over which it is amortised.

FRS 102

- If a reliable estimate of the UEL cannot be made the life should not exceed 10 years.

NB On transition it can be argued that if a company chose 20 years (cap in FRS 10) that it cannot change that initial estimate and so can continue to amortise ‘old’ goodwill over 20 years

Intangible assets

IFRS

- Software costs that are not an integral part of related hardware are classified as intangible fixed assets.

FRS 102

- Classification of software costs not addressed. Therefore appropriate accounting policy should be regard to sections 10.4 to 10.6 of FRS 102) to classify as either a tangible fixed asset or an intangible asset.

UDG Healthcare Plc

Intangible assets - acquired

Intangible assets that are acquired by the Group in a business combination are stated at cost less accumulated amortisation and impairment losses, when separable or arising from contractual or other legal rights and when they can be measured reliably.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets. Intangible assets are amortised over the following range of periods:

Customer relationships	3-15 years
Trade names	5-15 years
Technology	5-10 years
Contract based	4-8 years

Intangible assets – computer software

Computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:
- an asset can be separately identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met. Computer software is amortised over its expected useful life, which ranges from 3 to 10 years, by charging equal instalments to the income statement from the date the assets are ready for use.

Game Account Network Plc

2.6 Intangible assets

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

The significant intangibles recognised by the Group with their useful economic lives are as follows:

Licences and trademarks	Shorter of licence term or 10 years

Internally generated intangible assets (development costs)

Expenditure incurred on development activities including the Group's software development and related overheads is capitalised only where the expenditure will lead to new or substantially improved products, the products are technically and commercially feasible and the Group has sufficient resources to complete development.

Capitalised development costs are amortised over the years the Group expects to benefit from selling the products developed which is typically three to five years. The amortisation expense is included within the distribution cost line in the consolidated statement of comprehensive income.

Musgrave Group

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Brand – 5 years
- Customer relationships – 5 to 10 years

The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired.

11 Intangible assets

	Goodwill €m	Customer relationships €m	Brand €m	Total €m
Group				
Cost				
At 1 January 2013	324.2	6.0	43.0	373.2
Translation adjustment	(5.1)	-	-	(5.1)
At 31 December 2013	319.1	6.0	43.0	368.1
Additions separately acquired in 2014 (note 35)	-	2.7	-	2.7
Translation adjustment	11.7	-	-	11.7
At 27 December 2014	330.8	8.7	43.0	382.5
Amortisation				
At 1 January 2013	156.1	1.4	21.4	178.9
Charge for 2013 (note 5)	13.6	0.9	19.2	33.7
Provision for impairment in 2013 (note 5)	78.3	-	-	78.3
Translation adjustment	(0.7)	-	-	(0.7)
At 31 December 2013	247.3	2.3	40.6	290.2
Charge for 2014 (note 5)	5.0	1.1	2.4	8.5
Provision for impairment in 2014 (note 5)	19.4	-	-	19.4
Translation adjustment	11.1	-	-	11.1
At 27 December 2014	282.8	3.4	43.0	329.2
Net book amount				
At 1 January 2013	168.1	4.6	21.6	194.3
At 31 December 2013	71.8	3.7	2.4	77.9
At 27 December 2014	48.0	5.3	-	53.3

Business combinations and goodwill

IFRS

- Acquisition accounting must be used if within the scope of the business combination standard IFRS 3. If not (e.g. combination of entities under common control) a suitable accounting policy must be devised in accordance with the hierarchy in IAS 8.

FRS 102

- Group reconstructions may be accounted for by using the merger accounting method (as for current UK GAAP for group reconstructions) Otherwise merger accounting not permitted, except in some forms of combinations of public benefit entities.

IFRS

- Recognise identifiable intangibles on a business combination at fair value.
- All costs of acquisition written off as incurred.

FRS 102

- Recognise identifiable intangibles (eg: customer relationships and brands) on a business combination that can be measured reliably at fair value.
- Direct costs capitalised as part of the cost of acquisition.

IFRS

- Goodwill may be measured based on either the excess of the cost of the business combination over the acquirer's share of the fair value of the identifiable assets, liabilities and contingent liabilities or may be measured based on the fair value of the non controlling interest (effective grossing up of goodwill).

FRS 102

- Measured as the excess of the cost of the business combination over the acquirer's share of the fair value of the identifiable liabilities and contingent liabilities (parent share of goodwill only).

IFRS

- Goodwill not amortised but subject to formal annual impairment review.
- Negative goodwill (gain from a bargain purchase) is recognised in profit or loss immediately on the acquisition date.

FRS 102

- If a reliable estimate of the UEL cannot be made the life should not be exceed 5 years.
- Negative goodwill up to the fair value of non- monetary assets is recognised in profit or loss as those assets are recovered. Negative goodwill in excess of the fair value of non- monetary assets is recognised profit or loss in the period expected to benefit.

INM Plc

Business Combinations

The Group uses the acquisition method of accounting to account for business combinations by the Group.
The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities that are present obligations assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Income Statement.

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Business combinations and goodwill

Business combinations are accounted for by applying the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measureable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities. Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the Group's interest in the identifiable assets, liabilities and contingent liabilities acquired.

Musgrave Group

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding five years. Goodwill is assessed for impairment when the estimated recoverable value of goodwill is less than the carrying value and any impairment is charged to the profit and loss account. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

Goodwill arising on foreign acquisitions is translated at the rates of exchange prevailing at the balance sheet date.

Goodwill ascribed to disposed businesses is recognised as a disposal, as incurred.