FRS 102 – where you should be now

In this article Robert Kirk outlines where accountants should be now in terms of their final preparation for FRS 102. As part of that, he describes what his organisation has been doing over the past year to prepare.

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FRS 102 was published two and a half years ago and the deadline for implementation is now upon most companies, particularly those with a 31st December year-end. To help illustrate where your organisation should be now I will describe what my own has been doing over the past year as it must fully implement FRS 102 for our 31st July 2016 year-end financial statements.

Latest developments

FRS 102 was amended in August 2014 so it is essential that you download the correct copy from the website of the Financial Reporting Council (FRC) at www.frc.org.uk. In addition, if you are currently adopting the FRSSE you will have to consider whether or not you meet the definition of a micro entity and eventually apply the proposed new standard FRS 105 The Financial Reporting Standard applicable to the micro entities regime which should be available from the 1st January 2016, provided the Irish government can implement the associated European Directive in time. Even if you do not meet the micro definition you then have to consider whether or not to implement the proposed 'light' version of FRS 102 which would result in a fundamental reduction in the disclosures required in the financial statements. This new 'light' version will be incorporated as a special Section 1A in FRS 102 and will list the disclosures required by law. However, that will not necessarily provide a true and fair view and directors of companies adopting this version of FRS 102 will have to consider what additional disclosure will be necessary in order to achieve a true and fair view. That is not the case with the new FRS 105 as it is made clear in the legislation that compliance with FRS 105 will provide a true and fair view. I would suggest that if you are currently operating the FRSSE to stay with that standard until 2016.

It is more problematic if you are currently adopting full FRSs and SSAPs because you must adopt the current FRS 102 now for 2015 but then, provided you meet the micro or small company criteria, you may well want to change again in 2016 to one of the two new proposed standards. That will mean two changes in two years which is unfortunate.

Obviously you can always adopt a higher level of reporting regime so in theory, a micro entity could adopt full international financial reporting standards. There are a number of major differences in recognition and measurement between FRS 105 and FRS 102. For example under FRS 105 you must adopt the performance or balance sheet model in accounting for government grants, you are not allowed to adopt a revaluation model for property nor to capitalise development or borrowing costs et al.

Financial reporting was supposed to become more consistent and less complex but we will soon have a five tier reporting system in these islands from 2016 on. The probable structure will be as follows:

Likely Irish GAAP from 1st January 2016: UK GAAP

Old Framework	Small entities regime		Full Irish GAAP	n/a	n/a
New Framework	Mirco entities regime	Small entities regime	FRS 102	Reduced disclosure Framework (FRS 101)	Reduced disclosures for subsidiaries and ultimate parents (FRS 102)
Related Accounting Standard(s)	Draft FRS 105	Draft Section 1A Small Entities of FRS 102	FRS 102	FRS 102	Paragraphs 1.8 to 1.13 of FRS 102

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For Irish entities, small companies are referred to in s.350(2), (3) & (5) Companies Act 2014. The current equivalent size criteria are:

- Turnover not exceeding €8.8m,
- Balance Sheet total not exceeding €4.4m, and
- Number of employees not exceeding 50.

For micro entities there is obviously no size limit at present but in the UK a company qualifies if it does not exceed two or more of the following criteria:

- Turnover £632,000
- Balance sheet total £312,000
- No. of employees 10

In Ireland the turnover limit could be €700,000 turnover and balance sheet total €350,000.

A future article will go into more depth once the government has given the green light to the new micro entity regime.

Implementing FRS 102

I am using the experience of my own organisation as to how the project to implement FRS 102 should progress. The university has to implement FRS 102 fully for accounts year end 31st July 2016. The process of preparing for the switchover to FRS 102 was started in June 2014 and a project team was set up to include the finance director, deputy finance director, payroll accountant, management accounting team, human resources, IT manager, property services and myself as a technical consultant. A project manager from the finance team was chosen to lead the team and to ensure the project was on time and in compliance with FRS 102.

The initial work was carried out by the finance team whose job was to identify the key accounting issues that emerged from the transition from old UK/Irish GAAP to the new balance sheet (or statement of financial position) under FRS 102 at our date of transition which is the 1st August 2014 (the first day of the previous accounting year to the year of implementation). The key issues that emerged were:

1. Revenue recognition and in particular whether we should adopt the performance or accruals model for grant recognition.
2. The need to accrue for holiday pay for the first time.
3. The possibility of carrying out a once off revaluation of our property at the date of transition.
4. The need to move our investment property revaluation reserve into retained earnings at that date.
5. To examine all existing lease agreements to identify any embedded leases.

After identifying these issues an action plan was drawn up by the deputy finance director to cover the following issues:

- The Scope and Objectives of the project
- Roles and Responsibilities of each member of the project team
- Milestones and key activities
- Controls and Management procedures to be employed

An action table was set up and individuals assigned to ensure that we would be ready to draft a reconciliation of the balance sheet (statement of financial position) to the new standard as at 1st August 2014.

There were a number of ad hoc meetings between the individuals involved but the second formal meeting of the team took place in September 2014 and this was really an updating meeting to ensure that all the work was going smoothly and if any material issues had arisen.

Our third meeting of the project team took place in June 2015 and at that stage the project manager produced a draft reconciliation of the balance sheet as at 1st August 2014 which is still to be approved by Council in due course and this will form one of the three reconciliations to be published in the notes to our July 2016 accounts. The other two will be a reconciliation of the balance sheet at the 31st July 2015 and of the income and expenditure account for the year ended 31st July 2015. We do not foresee any major problems in reconciling the latter as all of the issues have been picked up from the work carried out on the 1st August 2014 balance sheet.

Where you should be now

Most Irish companies have the 31st December as their accounting year end. Unfortunately these are the first accounts that must apply the new standard. The key date is the date of transition which would be the first day of the previous accounting year i.e. 1st January 2014. At this stage not only has that date passed but also the 31st December 2014 so all the data should now be available to reconcile to FRS 102 i.e.:

1st January 2014
Statement of financial position
(balance sheet)

31st December 2014
Statement of financial position
(balance sheet)

31st December 2014
Income statement for the year ended 31st December 2014

If not commenced at this stage I would suggest setting up a project team immediately to undertake the job of collecting the data to produce these reconciliations. As can be seen from my own experience that includes setting up a project team to ensure that payroll, property services, IT manager, management accountants and other relevant parties are fully engaged in the project.

The project manager should review FRS 102 carefully and try to identify the key differences between old GAAP and new GAAP. I have already identified the issues in my article in the June 2014 of *Accountancy Plus* on the transitional aspects of implementing FRS 102. However, briefly to summarise these are the steps that must be undertaken:

1. Review the mandatory exceptions to retrospection and particularly the prohibition of changing any previous accounting estimates e.g. bad debts, possibly the 20 year write off policy for goodwill etc.
2. Review the optional exceptions and seriously consider to elect not to go back to restate previous business combinations (avoid including new intangibles on balance sheet for past acquisitions, avoid having to restate previous mergers as acquisitions) and consider whether it would be useful to

stop revaluation of property or perhaps, for those adopting the cost model, to carry out a once off valuation on the 1st January 2014 to ensure that reserves are bolstered up.

3. Review the old balance sheet as at 1st January and ask yourself am I missing any assets or liabilities that are required now under FRS 102. An example of that would be the need to accrue for holiday pay and possibly the inclusion of hedged assets and liabilities on balance sheet for the first time.
4. Review the old balance sheet and ask yourself do I need to remove any existing assets and liabilities because they fail the tests to be included under FRS 102. It is hard to think of examples but you may wish to avail of the option not to capitalise development costs and remove that asset from the balance sheet.
5. Review the old balance sheet for changes in measurement of existing assets and liabilities. An example of that would be the need to increase the deferred tax liability because of the requirement to provide for deferred tax on revaluations and on fair values in previous business combinations.
6. Review the old balance sheet and look for changes in presentation for existing assets, liabilities or equity. An example would be the need to remove the investment property revaluation reserve to retained earnings as international accounting insists that investment property gains and losses should always be reported in profit.

Conclusion

Clearly this autumn is the opportune time to get the project completed and try to prepare the three reconciliations that will have to be reported in the notes at the end of the 31st December financial statements. Presumably most of these financial statements will be published around April or May of 2016 so there is still time to get prepared. Also by carrying out the work before the 31st December year end it will give Directors and their accountants a better insight into how they should prepare their 2015 financial statements under the new regime.

However, some thought will have to be given for those companies currently within the small company bracket. Will they be eligible for the proposed micro or small entity 'light' FRS 102 and, if so, would they prefer to prepare their accounts at a higher 'heavy' FRS 102 as it offers them more options? Will the banks and financial institutions be happy with the proposed three page FRS 105 set of financial statements or will they require a more detailed set of accounts under full FRS 102?

These questions need to be asked but the message must be loud and clear – time is running out for implementing the new regime.