BY
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FRS 104 Interim Financial Reporting

Robert Kirk brings you an update on the recent publication of FRS 104.

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FRS 104 was published in March 2015 as the latest development in updating UK/Irish GAAP in line with international financial reporting.

However, it is unusual in that it is not officially an accounting standard, but a statement of best practice, and therefore unlikely to be applied by many reporting entities.

The standard replaces the old ASB Statement *Half-yearly financial reports* and is designed for entities that do not report under full IFRS but do prepare an interim report. However, even in these circumstances, it is only compulsory in very narrow circumstances.

Which entities will apply FRS 104?

The Disclosure and Transparency Rules (DTRs) published by the EU and now contained under Company Law state that where an in-scope (e.g. trading on a regulated market) entity is not using EU-adopted IFRS for its full accounts, its interims must be prepared either in accordance with IAS 34 *Interim Reporting* or with current FRC pronouncements - which previously referred to the ASB Statement, and now refers to FRS 104.

The reporting requirements of FRS 104 exceed those of the DTRs. The DTRs do not require entities that do not prepare consolidated financial statements to produce a statement of cash flows or a statement of changes in equity, whilst this is a requirement of FRS 104. However, this is consistent with the recommendations contained in the ASB Statement *Half-yearly reports* and therefore FRS 104 is not imposing a new reporting requirement.

The Association of Investment Companies (AIC), the trade body representing almost 350 investment companies, has around 250 of its members as either investment trusts or venture capital trusts. The vast majority of these prepare their financial statements in accordance with UK Financial Reporting Standards and will therefore be subject to the proposed FRS 104. These are the bodies most likely to be affected by the proposed FRS 104.

From an Irish perspective FRS 104 is obligatory for Irish issuers who don't apply EU-adopted IFRS and are required by the Transparency Regulations 2007 to prepare interim/half yearly financial reports. In Ireland, this primarily affects Fund and Debt issuers. For such issuers, the preparation of their interim/half yearly financial reports in 2015 will be the first time to apply the new UK and Irish GAAP.

Most listed entities, though, have subsidiaries, therefore they prepare group accounts and EU law requires these to be under IFRS - so they will not use FRS 104. Only those reporting as a single entity will need to look to the standard.

Although the standard aims itself at entities with annual accounts prepared under FRS 102, it is also available for those using FRS 101 (the reduced disclosure framework).

Any other entities may choose to prepare interims under FRS 104. Any reporting entity that makes a statement of compliance with FRS 104 must comply with all of the provisions of the FRS. The FRS, however, does need not be applied to immaterial items.

When is the new standard applicable?

FRS 104 applies to interim periods beginning on or after 1 January 2015. The 2007 ASB Statement has now been withdrawn with immediate effect, as has the ASB's *Statement on Preliminary Announcements*, meaning there is no longer any published guidance on preliminary announcements.

What are the key contents?

FRS 104 is very closely related to IAS 34. It even copies the text, with just a few paragraphs removed (marked as "[not used]" and a few added (inserted with clear numbering e.g. paragraph 2A). It also sets out the minimum required primary statements as follows:

- a condensed statement of financial position (balance sheet)
- a condensed statement of comprehensive income
- a condensed statement of changes in equity
- a condensed statement of cash flows
- notes

A single condensed statement of comprehensive income or a separate condensed income statement and a separate condensed statement of comprehensive income may be adopted as long as this is consistent with the basis of presentation applied in the entity's most recent annual financial statements.

Entities that have presented a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity in their most recent annual financial statements, are also permitted to present a single condensed statement of income and retained earnings if, during any of the periods for which the interim financial statements are required to be presented, the only changes to equity arise from profit or loss, payment of dividends, corrections of prior period errors or changes in accounting policies.

An entity that has presented only an income statement, or a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss' in its most recent annual financial statements, is permitted to use the same basis of presentation if there are no items of other comprehensive income in any of the periods for which the interim financial statements are required to be presented.

When the presentation of the components of the interim financial statements will be changed in its next annual financial statements an entity is permitted to present the components of the interim financial statements on that new basis, instead of having to apply the basis applied in its most recent annual financial statements. However, that does not apply to entities that will not present a statement of cash flows in its next annual financial statements.

Similar to FRS 102, an entity may use titles for the statements other than those used in this FRS as long as they are not misleading.

Some details are then given on the required notes, though the overriding theme is that an interim report needs:

"an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period".

In other words, it is meant to show highlights rather than provide detail. There is a list provided of events that would always be disclosed if they had taken place. These include impairment losses, large acquisitions and disposals, corrections of prior period errors etc.

The above, however, does not preclude reporting preparing a full set of financial statements at the interim date but this would require providing the same disclosures as per FRS 102 in addition to those required under FRS 104.

Seasonality

Most of the requirements are not particular to interims. They are very similar to the accounting requirements in FRS 102. However, there is a need to comment on the seasonality or cyclicality of interim operations particularly if a business's profits are loaded either in the first half or the second half of the accounting year. In that case an entity must make this clear in its interim report so that readers are not misled, by omission, to expect a full years result around double that of the first half year.

Costs that are incurred unevenly during a financial year should not be anticipated nor deferred for interim reporting purposes unless it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

The one expense that can be spread evenly throughout the year is the tax charge. It should be recognised based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year.

Significant events and transactions

It is important that users obtain information about any significant events and transactions that have occurred since the end of the last annual reporting period and thus these should be disclosed in the interim accounts.

FRS 104 has provided a list of events and transactions for which disclosures would be required, if they are significant, either in the notes or, if elsewhere, in the interim financial report. The events should be cross-referred to the disclosure in the notes to the interim financial statements. This list, however, is not intended to be exhaustive and it will be up to individual entities to decide what ultimately should be disclosed:

(a) the write-down of inventories to net realisable value and their subsequent reversal;
(b) the recognition of impairments of financial assets, property, plant and equipment, intangible assets, or other assets, and their reversal;

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(c) the reversal of any provisions for the costs of restructuring;
(d) acquisitions and disposals of property, plant and equipment;
(e) commitments for the purchase of property, plant and equipment;
(f) litigation settlements;
(g) corrections of prior period errors;
(h) changes in the business or economic circumstances that affect the fair value of financial assets and financial liabilities, if measured at fair value;
(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
(j) related party transactions
(m) changes in contingent liabilities or contingent assets.

Accounting policies

The same accounting policies should be applied for interim reporting as are applied in the entity's annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. If a decision is made to change a policy mid-year, the change is implemented retrospectively, and previously reported interim data should be restated.

Use of estimates

Measurement by its nature in an interim financial report must require a greater use of estimation methods than required in the annual financial reports. However, similar to annual accounts the resulting information must be reliable and all material financial information that is relevant to an understanding of the financial position or performance of the entity must be appropriately disclosed.

An appendix to FRS 104 provides guidance on how to apply estimation techniques in interim accounts. For example, there is no requirement for a full stock take of inventory and instead estimates may be made of inventory based on sales margins. A thorough investigation to determine current and non-current liabilities is not required nor is there a need to engage external advisers in providing the best estimate of provisions. A defined benefit obligation can often be reliably measured by extrapolation of the latest actuarial valuation adjusted for changes in employee demographics rather than employing the expense of a qualified actuary.

Other disclosures

Reporting entities are required to provide the following other disclosures so that users can identify the key changes and seasonality of events that have taken place in the interim period:

(a) A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.
(b) Explanatory comments about the seasonality or cyclicality of interim operations.
(c) The nature and amount of items affecting assets, liabilities, equity, profit or loss or cash flows that are unusual because of their nature, size or incidence.
(d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
(e) Issues, repurchases and repayments of debt and equity securities.
(f) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.
(g) The following segment information (BUT only if applying IFRS 8):
  (i) Revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise regularly provided to the CODM.
  (ii) Intersegment revenues, if included in the measure of segment profit or loss reviewed by the CODM or otherwise regularly provided to the CODM.

Summary

Few entities in Ireland are likely to need or want to apply FRS 104. Those that do will find some minor adjustments needed from the ASB Statement, which was less prescriptive in terms of its content and how measurement techniques are applied.