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# FRS 100-105 Triennial Amendments applicable 1st January 2019 Part 3

In this third and final article on the subject I will conclude my review of the main changes to that standard as well as covering some consequential changes to the new standard for micro entities, FRS 105.

As with the previous two articles I am covering the changes Section by Section. I will start with Section 24.

## Section 24 Government grants and Section 25 Borrowing costs

There are no substantive changes to either Section and the only changes are typographical and minor adjustments to the wording in each section.

## Section 26 Share based payment

There is an important change to this part of the standard dealing with the distinction between an equity and a cash settled share-based payment for a group scenario. This has been clarified in a new Section 26.2A as follows:

26.2A The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in its own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

There are also a large number of minor amendments to the wording in the section.

## Section 27 Impairment of assets

There are only a few minor typographical amendments to this section.

## Section 28 Employee benefits

A couple of minor changes are being implemented to employee benefits;

1. The cost of a defined benefit plan may now be presented net of amounts relating to changes in the carrying amount of the right to reimbursement; and
2. In group defined benefit plans a net defined benefit cost will require the recognition of a corresponding net defined benefit asset or liability in the individual financial statements for any group entity recognising a defined benefit cost.

## Section 29 Income tax

When calculating the tax due on a business combination using the purchase method, a new Section 29.11A will require an entity to consider the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the income tax asset or liability in order to determine the correct tax rate to apply.

FRED 68 *Payments by subsidiaries to their charitable parents that qualify for gift aid* (September 2017) has now also been inserted into revised FRS 102. However, this will only apply to UK companies. The new insertion responds to the significant differences in accounting treatment arising in practice, in relation to the accounting for gift aid payments made by a subsidiary to its charitable parent. These payments are

made during the nine months following the relevant reporting date and are a distribution to owners but are treated as donations for tax purposes. The amendments require the tax effects of such a gift aid payment, when it is probable that it will be made in the nine months following the reporting date, to be taken into account at the reporting date. This will improve the consistency of reporting between entities and the relevance of the information provided to users. The following new insertion is therefore being implemented:

- 29.14A As an exception, when:
- (a) an entity is wholly-owned by one or more charitable entities;
  - (b) it is probable that a gift aid payment will be made to a member of the same charitable group, or a charitable venturer, within nine months of the reporting date; and
  - (c) that payment will qualify to be set against profits for tax purposes, the income tax effects of that gift aid payment shall be recognised at the reporting date. The income tax effects shall be measured consistently with the tax treatment planned to be used in the entity's income tax filings. A deferred tax liability shall not be recognised in relation to such a gift aid payment.

Normally the tax expense is recorded in the same component of comprehensive income as the related transaction. However, an exception has now been introduced when distributions go to equity but their related tax effects instead will be recorded in profit and loss:

- 29.22A As an exception to paragraph 29.22, an entity shall present the tax expense (income) effects of distributions to owners in profit or loss.

### Section 30 Foreign Currency Translation and Section 31 Hyperinflation

There are some minor amendments to both of these sections but nothing of a substantive nature.

### Section 32 Events after the end of the reporting period

The revised standard has removed the need to disclose the fact that an entity's owners or others have the power to amend the financial statements after issue. This was always a fairly irrelevant disclosure note as rarely would anybody know who would have the authority to reissue the financial statements for the second time as this would be regarded as highly unusual.

### Section 33 Related party disclosures

The revised standard has introduced an additional paragraph 33.7A which states that where there is a legal or regulatory requirement to disclose directors' remuneration an entity is exempt from the requirement in paragraph 33.7 to disclose key management personnel compensation as long as the key management personnel and the directors are the same. This is really to help avoid a duplication of disclosure as directors' remuneration is already required under company law. A similar exemption applies to the additional disclosure normally required for the Directors' share-based payment arrangements.

### Section 34 Specialised activities

This is the longest section in the standard covering a wide variety of specialised activities including how to account for heritage assets, agriculture and public benefit entities. However, the only major change is a revision applying to service concessions.

#### Service concessions

Service concessions (better known as PPP or PFI contracts) are now revised to require, under Section 34.16B, both an operator and a grantor to disclose information that enables users of the entity's financial statements to evaluate the nature and extent of the relevant risks arising from those arrangements. This information

should typically include, but is not limited to, a description of the arrangement including any rights, obligations or options arising and any significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows. In addition, in Section 34.16C, an operator will now have to disclose the amount of revenue, profits or losses and other income recognised in the period on exchanging construction services for a financial asset or an intangible asset.

#### Financial institutions

There are also some changes to the disclosure requirements for financial institutions to require additional disclosure of the effect of credit risk on future cash flows, as follows:

- 34.21A When a financial institution has made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9, it shall disclose information that enables users of its financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

### Section 35 Transition to this FRS

A new paragraph 35.12A is being introduced for entities that have applied FRS 102 in previous periods but not in their most recent annual accounts. They will now have to disclose:

- (a) the reason why they had stopped applying FRS 102;
- (b) the reason why they are resuming the application of FRS 102; and
- (c) whether or not they have applied Section 35 or they have applied FRS 102 retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

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## Changes to FRS 105 The Financial Reporting Standard applicable to the Micro-Entities Regime

There are a number of consequential changes to FRS 105 as a result of the changes being made to FRS 102:

### Section 1 Scope

Micros in the Republic of Ireland can apply FRS 105 for accounting periods commencing on or after 1st January 2017 but early adoption is also permitted provided the Companies(Accounting) Act 2017 is applied at same time whereas Micros in UK can only apply the amendments to FRS 105 for accounting periods commencing on or after the 1st January 2019 except those in Section A which apply from 1st January 2017 i.e. off balance sheet financing and employee numbers disclosure.

### Section 3 Financial statement presentation

A micro need not provide a specific disclosure required by FRS 105 if the information resulting from that disclosure is not material, except when required by the Companies Act regardless of materiality. In addition, Irish micros do not have to include the notes at the foot of the Statement of Financial Position.

In addition, Irish micros must now disclose;

- the name and legal form of the micro entity;
- the place of registration and number;
- the address of the micro-entity's registered office; and
- where appropriate, the fact that the micro is being wound up and whether a receiver or provisional liquidator has been appointed and the former name as well as the existing name of the micro if the winding up commences within one year after the date on which it has changed its name.

Irish micros must also provide particulars of any departure from the principles set out in company law in preparing the micro's financial statements, the reasons for it and its effects on the statement of financial position and income statement in accordance with Appendix B to Section 6 Notes to the Financial Statements.

### Section 4 Statement of Financial Position

Irish micros must refer to Section B of Part II of Schedule 3B to the Companies Act 2014 and must also disclose information in relation to the following items:

In accordance with Appendix B to Section 6 Notes to the Financial Statements:

- (a) a change in the format of the statement of financial position adopted;
- (b) an asset or liability that relates to more than one of the items listed in the statement of financial position; and
- (c) any debts included under 'creditors' against which security has been given.

### Section 5 Income Statement

Irish micros must refer to Section B of Part II of Schedule 3B to the Companies Act 2014. A micro must recognise all items of income and expense in a period in profit or loss unless an FRS requires or permits otherwise, or unless prohibited by the Act e.g. prior period adjustments.

### Section 6 Notes to the Financial Statements

Appendix B to Section 6 covers the disclosure requirements for Irish micros and readers should refer to the list there. Suffice to say that it is much more extensive than that required by UK law (Appendix A) and that has resulted in two separate appendices for the two jurisdictions.

### Conclusion

Although the three-major international financial reporting standards on financial instruments, revenue and leases have yet to be incorporated into FRS 102 the changes announced in March 2018 are not superficial and preparers should look carefully into the minutiae. The revised standards, FRS 100-105, are all available free of charge to download from [www.frc.org.uk](http://www.frc.org.uk). Hopefully there will be no further revisions to the standards until the next triennial review which should take place in 2020.