Financial Reporting News

FRC proposes amendments to FRS 101 and FRS 102

The FRC has issued FRED 70 Draft amendments to FRS 101 – 2018/19 cycle and FRED 71 Draft amendments to FRS 102 – Multi-employer defined benefit plans.

FRED 70 arises from the annual review of FRS 101 Reduced Disclosure Framework. FRS 101 requires the application of the recognition and measurement requirements of EU-adopted IFRS with reduced disclosures. Unlike accounts that apply IFRS in full, those prepared in accordance with FRS 101 must comply with detailed accounting requirements set out in company law. Some of these requirements conflict with the requirements of IFRS 17 Insurance Contracts. Consequently, FRED 70 proposes that insurance entities shall not be permitted to apply FRS 101 if IFRS 17 Insurance Contracts is part of EU-adopted IFRS. The comment period for FRED 70 closes on 30 April 2019.

FRED 71 responds to a current financial reporting issue by proposing new requirements in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland for presenting the impact of transition from defined contribution accounting to defined benefit accounting. Such a transition is required by FRS 102 when sufficient information becomes available for an employer participating in a multi-employer defined benefit plan to apply defined benefit accounting. The comment period for FRED 71 closes on 31 March 2019.

Source: www.frc.org.uk

Consultation into improvements to the reporting of intangibles launched

Possible improvements to the reporting of factors that are important to a business' generation of value are discussed in a consultation launched by the Financial Reporting Council (FRC) on 6th February 2019.

There are frequent calls to reform the accounting for intangible assets, partly in response to the move to a knowledge-based economy. This paper considers the case for radical change to the accounting for intangible assets and the likelihood of such change being made in the near future.

It suggests that:

- relevant and useful information could be provided without the need to recognise more intangible assets in companies' balance sheets;
- such information could cover a range of factors, broader than the definition of intangible assets in accounting standards, that are relevant to the generation of value;
- improvements could be made on a voluntary basis within current reporting frameworks (such as the strategic report); and
- participants in the reporting supply chain could collaborate to bring about improvements.

Paul George, Executive Director for Corporate Governance and Reporting at the FRC, said,

"It is unrealistic to expect the value of a business to be fully represented in its balance sheet; there is always likely to be a gap between the balance sheet total and the market capitalisation of a company.

The paper suggests several ideas for expanding the information provided, both quantitative and qualitative, to improve users' assessment of corporate value."

The deadline for responses to the consultation is 30 April 2019.

IASB proposes clarifications for companies assessing whether contracts will be loss-making

The International Accounting Standards Board (Board) has published for public comment proposed amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs a company should include when assessing whether a contract will be loss-making.

The proposed amendments originate from a request to the IFRS Interpretations Committee for clarification of which costs to include in this assessment.

A company determines that a contract will be loss-making—and describes it as onerous—if the costs the company expects to incur to fulfil the contract are higher than the economic benefits it expects to receive from it.

The Board has proposed to amend IAS 37 to specify that the costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfil contracts.

The amendments will provide greater clarity to companies and help ensure the Standard is applied consistently. The changes are most relevant for companies in the manufacturing, construction and services sectors, and may result in some companies recognising costs earlier than previously.

The deadline for commenting on the proposals is 15 April 2019.