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# Triennial Review – FRS 102 Revisited

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- Your Questions
  - During the session
  - At the end of the session

# Triennial Review – FRS 102 Revisited

- Webevent Timing - 12:30 – 13:30
- Introduction – 5 Minutes
- Teaching Space – 45 Minutes
- Questions and Answers – 5 Minutes
- Session Close – 5 Minutes

## Overview

- Topic 1: When are these changes mandatorily effective from?
- Topic 2: FRS 102 changes;
- Topic 3: FRS 105 changes;

## **FRS 102 triennial amendments**

- New version of FRS 102 issued at end of March 2018
- When is it effective from?

### **ROI Entities**

- Sections introducing Section 1A (Appendix E) mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2017. Early adoption permitted as long as CAA 2017 is applied (cannot be applied before 1 January 2015)

## FRS 102 triennial amendments

- When are they effective from?

### ROI Entities

- For other changes mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2019 but can be early adopted – must adopt all changes if early adopted with the exception of changes made to:
  - Loans by directors and the non-requirement to PV (currently S1.15A)
  - Gift aid rules (only applicable for charities in UK)

## **FRS 102 triennial amendments**

- When are they effective from?

### **UK Entities**

- Changes mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2019 but can be early adopted – must adopt all changes if early adopted with the exception of changes made to:
  - Loans by directors and the non-requirement to PV
  - Gift aid rules

## **FRS 102 triennial amendments**

- If early adopted and non S1A then required to disclose that you have early adopted Triennial review amendments
- If early adopted and S1A then encouraged to disclose this fact

## FRS 102 triennial amendments

- Section 1 – minor wording changes
  - Deletion of the small company and directors loan exemption in S1.15A instead this is moved into S.11 of FRS 102
  - Sections detailing when triennial review changes are applicable from

## FRS 102 triennial amendments

- Section 1A –
  - S1A, Appendix A & Appendix B updated for ROI Co Law for small Co.'s regime with footnotes
  - Appendix C now specifically for UK entities
  - Appendix D is now moved to Appendix E and a new Appendix D inserted specifically for ROI entities – bringing in the disclosure requirements under S1A as stated in CA 2014 as amended by CAA 2017
  - Appendix D (encouraged items) moved to New Appendix E

## FRS 102 triennial amendments

- Section 3.14 – Requirement for comparatives for all SORP disclosures
- Section 16 Investment property – IP rented within Groups
  - Section 16.1A, 16.4A-16.4B introduced to allow investment property rented to other group entities to be accounted for as PPE
  - Section 17
  - Note option to apply fair value still exists;
  - Where a change made to account as PPE – can adjust prospectively and use the previous valuation as deemed cost
    - NB remember to still maintain deferred tax if this exemption is used
  - Welcome introduction for groups and prospective adjustment ability is positive

## **FRS 102 triennial amendments**

- Section 16 Investment property – Undue cost or effort
  - Section 16.1 amended – no longer possible to use the undue cost or effort get out
    - If meet the conditions – must fair value
- Section 16 Investment property – Other matters
  - If PPE option taken S.17 requires disclosure of the carrying amount of Investment Property included within PPE
  - Further clarification –Mixed use.

## FRS 102 triennial amendments

- Section 18 Intangibles –
  - New S18.8 – In business combinations choice to on recognition of intangibles
  - New option
    - Only recognise when it arises from contractual or other legal rights AND is separable
  - Welcome relief as less intangibles now and more goodwill recognised in business combinations
  - Cannot apply this change retrospectively

## FRS 102 triennial amendments

- Section 11 Financial instruments – Basic financial instruments
  - New Section 11.9A introduced which details an overriding principle to debt instrument to be considered basic – If the conditions in Section 11.9 which defines a basic debt instrument are not met then possible to still be basic if requirement of 11.9A
  - S11.9A – debt instrument is basic if it gives rise to **cash flows** on **specified dates** that constitute **repayment of capital** together with **reasonable compensation** for the time **value of money, credit risk and other basic lending risks**. Contractual terms that introduce exposure to unrelated risks or volatility would not be consistent with this (e.g. changes in equity prices)

## FRS 102 triennial amendments

- Section 11 Financial instruments – Basic financial instruments
  - New S.11.6A – classification at initial recognition not changed unless change in contractual terms
  - New Section 11.9A
    - May result if more instruments becoming basic – allows judgement;
    - Examples of basic instruments have been updated – e.g. if standard variable interest rate for bank is negative this is now considered basic
  - Section 11.9(c) updated to allow reasonable compensation to be payable to the issuer or the holder by either party if there is early termination

## FRS 102 triennial amendments

- Section 11.14(d) –option to fair value shares through OCI
- Section 11 Financial instruments – Directors Loan –Small entity
  - New Section 11.13A introduced – Loans from director or family members who are **ALSO** shareholders who provide loans **TO** the **Small Entity** at non-market rates & not repayable on demand then can measure at:
    - Amount of the loan received by the company less repayments i.e. no need to PV
  - (previous to this this exemption was in Section 1.15A effective since May 2017)
- Section 11.42 – additional disclosures if Financial instruments are significant to the entity (previously not stated)

## **FRS 102 triennial amendments**

- Section 11 Financial instruments – Directors loans
  - Can be applied without applying any other Section of the amendments
  - If policy changed from Small entity PV previously then must be applied retrospectively
  - If move from small to med/large then apply change to PV prospectively – using facts at that time;

## **FRS 102 triennial amendments**

- Section 11 Financial instruments – Disclosures
  - No longer required to disclose in notes, details of items held at amortised cost or financial assets held at equity instruments at cost less impairment;
- Section 13 Inventories – no longer required to disclose stock as an expense in period

## FRS 102 triennial amendments

- Section 22- Liabilities and equity
  - S22.8 updated – not specifically required to recognise equity instruments at fair value if Section 72, 73 and 75 of CA 2014 apply (merger relief/group reconstruction)
  - New S22.8A – In addition no need shares to be recognised at fair value where:
    - The creditor is direct/indirect shareholder;
    - The extinguishment is in accordance with original terms;
    - The creditor and entity is controlled by before and after the transaction.

## FRS 102 triennial amendments

- Section 29 – Income tax
  - New Section 29.14A – Specifically relating to UK charities
    - Gift aid rules (where trading Co. is a sub of a UK Charity) – clarified cannot recognise in the current year FS's unless deed of covenant in place;
    - It should be recognised in equity; and
    - Tax effects of the payment can be recognised in P&L in current year if probable will be paid within 9 mths of YE.
  - Can be early adopted without early adopting any other provision in the triennial amendment
    -

## **FRS 102 triennial amendments**

- Section 2 – Minor amendments – Appendix included defining what fair value is and the fair value hierarchy – previously included in Section 11
- Section 3 – made clear that Cash flow not required for small entity even if S1A is not applied.
- Section 5 – Made clear if operating profit disclosed – profit/loss on disposal of fixed assets must be included above this line
  - Discontinued operations to be included below this line

## **FRS 102 triennial amendments**

- Section 7 Cash flows – requirement to include a changes in net debt in the notes (showing cash flows generally, new finance leases, acquisitions/disposals and other non cash items)
- Sections 9 Consol & Separate FS –
  - minor wording changes. Additional disclosure where SPV's held but not consolidated
  - Separate FS's – differing accounting policy for investment held as investment portolio & not included in consol and normal subs
- Section 23 Revenue – new example dealing with principle versus agent

## **FRS 102 triennial amendments**

- Section 14 – Associates / Section 15 – JV's– No longer ability to use undue cost or effort where fair value option is originally chosen (if not do a change in Accounting policy).
- Section 19.27 & Glossary expands definition for group reconstruction to include transfers of a business
- Section 34 – updated definition – narrowed – retirement benefits are no longer applicable & no longer applies wording 'generate wealth and manage risk'

## **FRS 102 triennial amendments**

- Section 33 – related parties –
  - Key management compensation change
- Section 35 – Transition
  - New S35.12A - Additional disclosures if transition to FRS 102 when previously had been FRS 102 in past
- All other Sections – minor wording changes

## FRS 102 triennial amendments

- Are there any disadvantages to early adopting if not required to?
  - Accounting software may not have been updated
  - Accountants only getting comfortable with existing FRS 102
- Would it be beneficial for some entities to early adopt changes which do not have to be early adopted?
  - Yes – for companies with investment properties within the group
  - Or where the overriding basic financial principle is beneficial

## **FRS 105 triennial amendments**

- New FRS 105 issued at end March 2018
- When are they effective from?

### **ROI entities**

- Sections introducing Micro companies regime mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2017. Early adoption permitted as long as CAA 2017 is applied
- For other changes mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2019 but can be early adopted – must adopt all changes if early adopted

## **FRS 105 triennial amendments**

- When are they effective from?

### **UK entities**

- Amendments to Section 3.13A & Section 6 – mandatorily applicable for periods beginning on or after 1 January 2017
- For other changes mandatorily applicable for periods beginning on or after 1<sup>st</sup> of January 2019 but can be early adopted. If so must adopt all changes.

## **FRS 105 triennial amendments**

- Section 1 – Amendments for Triennial review and when they are to be applied
- Section 3 – FS presentation
  - S3.13A UK entities to Co. No., registered office, form of Co., disclosure of fact Co. is wound up if that is the case;
  - S3.13B – ROI – As above and if a receiver appointed this must be stated –

## FRS 105 triennial amendments

- Section 1 – Amendments for Triennial review and when they are to be applied
- Section 4 & 5 – balance Sheet / P&L – updated with footnotes for ROI legislation and disclosure notes required by the CA 2014 and micro companies regime
- Section 6 Notes to FS's
  - UK entities – Appendix A updated for requirement to disclose:
    - Average No. of employees in the year;
    - Details of arrangements not on balance sheet but could have impact
  - S3.13A UK entities to Co. No., registered office, form of Co., disclosure of fact Co. is wound up if that is the case;
  - S3.13B – ROI – As above and if a receiver appointed this must be stated –

## FRS 105 triennial amendments

- Section 6 Notes to FS's
  - ROI entities – New Appendix B inserted detailing disclosure requirements – Mirror CAA 2017:
- Section 17 Liabilities and Equity
  - New S17.8A – Ordinarily need to recognise shares issued at fair value. No need shares to be recognised at fair value where:
    - The creditor is direct/indirect shareholder;
    - The extinguishment is in accordance with original terms;
    - The creditor and entity is controlled by before and after the transaction.

## **FRS 105 triennial amendments**

- Section 24- Income tax
  - New S24.4A – requires disclosure of Close company surcharge in period it arises regardless of whether dividend paid afterwards to avoid it
    - Currently not dealt with so policy not to recognise if probable a dividend will be paid to avoid it. No longer available.
  - New S24.4B Gift aid change as detailed in FRS 102 changes

## **FRS 105 triennial amendments**

- Section 18 Revenue
  - new example dealing with principle versus agent
  - Costs incurred on securing a contract can be capitalised is probable if won
- Other sections
  - Minor wording changes and updating for references to Appendix B of Section 6 of FRS 102

## Conclusion

- Changes on the way in 2019
  - However changes are good news;
  - Did not over complicate it by bringing in IFRS 15 and lease
  - Early adoption will apply for S1A and FRS 105
  - Early adoption should be done by groups where properties rented within the group
  - How many will rush to early adopt??

## Wrap Up

- Webinar Series Continues – Audit Exempt Considerations 1<sup>st</sup> May @12:30
- CPDStore.com
- OmniPro Practice Support Team
- OmniPro Team
- Thank You

# Why OmniPro

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# Why OmniPro

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