

FRS 102

Triennial Review Quick Guide

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**Here to guide you and your clients through
the transition to FRS 102 and beyond**

Quick guide to changes made to FRS 102 by FRC Triennial Review

Overview

The FRC issued an updated version of FRS 102 in March 2018 which incorporates recommendations and feedback given by stakeholders on improvements that could be made. It also incorporates Appendix D of Section 1A of FRS 102 which deals with the required disclosures for Irish entities that prepare financial statements under Section 1A of FRS 102.

In the main, all changes are positive as it makes it easier for users to apply the rules of the respective Section of the accounting standard.

This guide summarises the main changes that have been made in the March 2018 version.

When are the changes made to the March 2018 version of FRS 102 mandatorily effective from?

Amendments other than the changes made to Section 1A of FRS 102

- All changes other than the changes made to Section 1A (as discussed below) are not mandatorily effective until periods beginning on or after 1 January 2019.

Amendments to Section 1A of FRS 102

- Mandatorily effective for periods beginning on or after 1 January 2017 (can be early adopted for periods beginning on or after 1 January 2015). If early adopted, entities are encouraged to state that they have applied the March 2018 version of FRS 102.

Can the changes made in the March 2018 version of FRS 102 be early adopted?

Yes - the changes made can be early adopted. However, if it is early adopted, an entity must adopt all changes made (i.e. an entity cannot pick and choose which changes to adopt) with two exceptions. An entity can early adopt the changes made to the following areas without adopting the rest of the changes:

- For small entities that qualify as a small entity as defined in Section 280A or 280B of Companies Act 2014 to:
 - o Recognise loans from shareholders (who are individuals) and their family members which are not repayable on demand and not at market rates at the amount of the loan advanced as opposed to having to present value these loans at a market rate of interest (not this can currently be adopted in any event under the September 2015 version);
- The treatment in relation to gift aid rules for charities which allows the tax effect of a payment made under gift aid rules to be considered at year end date, where it is probable it will be paid within 9 months of year end. This is only applicable to UK charities.

If an entity decides to early adopt, what disclosures are required?

Full FRS 102 financial statements

- In this case, the entity must disclose the fact that the March 2018 version of FRS 102 has been early adopted (Section 1.18 of FRS 102).

Section 1A financial statements

- In this case, the entity is encouraged to disclose the fact that the March 2018 version of FRS 102 has been early adopted (Section 1.18 of FRS 102).

What are the key changes?

- Section 1A of FRS 102: –
 - o Section 1A of FRS 102 is updated for the small companies regime legislation in the Republic of Ireland;
 - o Appendix C of S1A now specifically deals with disclosure requirements for UK small entities only;
 - o The previous Appendix D of S1A which dealt with items encouraged to be disclosed has now moved to Appendix E of S1A.
 - o Appendix D of S1A is now replaced and Appendix D now contains the required disclosures for Republic of Ireland entities preparing S1A financial statements. This mirrors the requirements of Companies Act 2014 as amended by Companies (Accounting) Act 2017;
- Section 16 - Investment property: –
 - o Definition of investment property changed such that, in group situations where property is held by one group company and used by another in the group there is now a choice:
 - to treat such a property as property, plant and equipment and therefore account for this under Section 17 of FRS 102 where it is held at cost less depreciation and impairment.

Prior to this, such a property had to be accounted for as an investment property in the company that held the property (note an entity still has this option available – there is a choice).

If option adopted – must disclose carrying amount of investment property included in property, plant and equipment.

 - o No longer possible to claim exemption from fair valuing investment property where it causes undue cost or effort – this get out has been deleted;
 - o Mixed use property can only be fair valued if the rented portion can be sold or leased under finance lease in its own right;
- Section 18 – Intangible assets: –
 - o In business combinations there is now a new option (which does not have to be taken up) to recognise the intangible asset only when it arises from contractual or other legal rights AND is separable. Up to this, instead of the word 'AND' it only stated 'OR'. This will result in more intangible assets being subsumed within goodwill;
- Section 11 – Basic Financial Instruments: –
 - o New Section 11.9A – Includes overriding principle for certain debt instruments to be considered basic even if the conditions for basic in Section 11.9 of FRS 102 are not met;
 - Allows for judgement to be applied by entities – previously no judgement was permitted. Can be considered basic if;
 - It gives rise to cash flows;

- On specified dates that constitute repayment of capital;
 - And there is reasonable compensation for time value of money, credit risk etc.
- Additional examples of basic instruments included e.g.
 - if standard interest rate on a bank loan is negative - this instrument is now considered basic and no longer complex;
 - for early termination it now permits reasonable compensation payable to the issuer/holder by either party.
- No longer required to disclose assets/liabilities held at amortised cost/ fair value through P&L/ at cost less impairment.
- Section 13 – Inventories: –
 - no longer required to disclose 'stock recognised as an expense' in the period;
- Section 22- Liabilities & Equity: –
 - requirement to recognise the issue of shares at the fair value of the cash/other resources received has been relaxed so as to conform with the requirements/ options in company law whereby in certain circumstances, an issue of shares can now be recognised at the par value plus share premium of the shares (i.e. at the value of the shares issued as stated in the Form B5) where following the transaction a group structure has been created or the transaction is between group companies;
 - No requirement to recognise shares issued at an amount equal to fair value of asset received where:
 - There creditor is a direct/in direct shareholder;
 - The extinguishment is in accordance with the original terms;
 - The creditor and entity is controlled both before and after the issue of shares.
- Section 2 – Concept and Pervasive Principles: –
 - Definition of fair value moved from Section 11 to Section 3;
- Section 29: - Income Tax
 - **UK only:** The treatment in relation to gift aid rules for charities which allows the tax effect of a payment made under gift aid rules to be considered at year end date, where it is probable it will be paid within 9 months of year end. This is only applicable to UK charities.
- Further confirmation that cash flow not required for small entity even where full FRS 102 is applied;
- New requirement to include changes in net debt note for the cash flow statement;
- Further guidance provided in Section 23 – Revenue on the accounting for Principle versus Agent;
- Where directors and key management personnel are one and the same, no longer required to disclose key management personnel;
- Where an entity transfers to another accounting standard and subsequently reverts to FRS 102 – requirement to disclose why they transferred out from FRS 102 in the first place and the reason for subsequently reverting to FRS 102.

How are the changes made to the March version of FRS 102 to be accounted for – does retrospective or prospective adjustment apply?

- The change to the treatment of property held and used in a group where the group entity holding the property is no longer required to account for the property as investment property. In this case, the change is to be accounted for prospectively (i.e. in the year the

March 2018 version is adopted - there is no requirement to adjust the comparative figures, instead the carrying amount at the start of the comparative period is deemed to be the cost.

- o Remember deferred tax will still apply, if applicable.
- The change in policy for small entities that hold loans from shareholders, not at market rate and not repayable on demand from an amortised cost model to a cost model must be applied retrospectively so a prior year adjustment is required for the change in accounting policy.
- The change in definition of intangibles for the purposes of business combinations cannot be retrospective applied – it is only possible to adopt these changes in the year the March 2018 version is adopted.

What entities would benefit from early adopting the March 2018 version of FRS 102?

- Groups where entities in the group hold property that is used by other entities in the group as they can avail of the new definition of Section 16.4A of FRS 102 to carry such property at cost less impairment and hence reduce the cost/administrative effort of fair valuing the property;
- Entities that have acquired businesses, where they do not want to get into a detailed exercise on separating intangibles from the goodwill whereby they can adopt the new definition of an intangible for business combination purposes, thereby reducing administrative hassle and costs.
- Entities where previously, financial instruments were classified as complex as they did not meet the definition of basic in Section 11.9 of FRS 102, but now will because of the amendments be classified as basic instruments;

What do accountants need to know/do?

When preparing Section 1A FRS 102 financial statements be aware that they are preparing these under the March 2018 version of FRS 102.

Advise clients that have companies in a group where property is owned by one group entity and used by the other, of the option to carry that property at cost less impairment as opposed to fair value as this may reduce cost and administrative effort for such an entity.

For entities that have had business combinations, advise those clients of the possibility of reduced work due to the change in definition of when an intangible needs to be separately identified.

Be aware of the upcoming changes so that the practice is prepared on implementation date.