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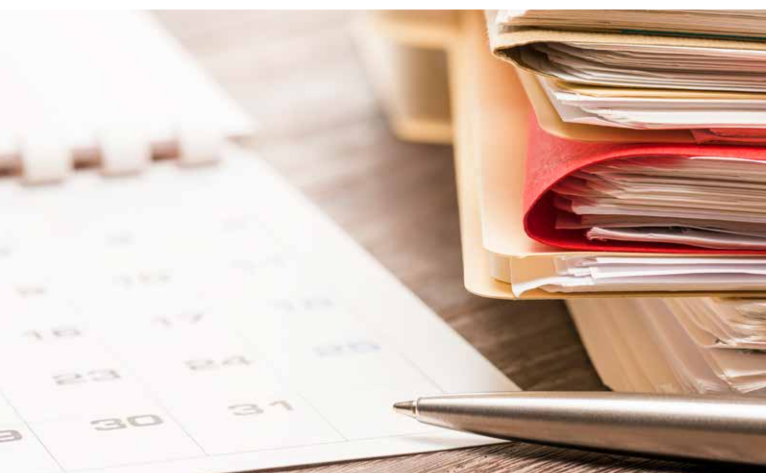
FRS 102 Triennial Amendments – simplification or unnecessary complication?

Many companies and their advisors complain that financial reporting regulation is always changing! Companies will turn to their accountants and advisors for help in navigating the recent amendments.

When FRS 102 was originally released, many firms hoped that it would mean a period of stability for UK and Irish companies, who would have had a significant amount of work to do to prepare themselves for the transition to FRS 102. Perhaps this was not necessarily the case as we have seen the Financial Reporting Council (FRC) undertake a triennial review of this "new GAAP" and make further changes to FRS 102 that will affect UK and Irish companies.

Application date

The FRC committed to undertaking a triennial review of the accounting standards in UK and Irealnd, looking every three years at implementation issues that had arisen for preparers of financial statements. The amendments take mandatory effect for periods starting on or after 1 January 2019 and early adoption is permissible. The article doesn't highlight all the changes introduced but reviews the key issues which are going to most affect those preparing financial statements.



Removal of undue cost or effort exemptions

The FRC have decided to remove the exemption of "undue cost or effort" which they felt was being abused somewhat by many companies. Prior to the review, companies were required to measure all investment property at fair value, unless there was undue cost or effort in determining such a fair value. This exemption has been removed so all investment property (with the exception of investment property rented to another group entity) must now be measured at fair value. Many companies were interpreting "undue cost or effort" as an accounting policy choice, rather than an exemption to measure investment properties at cost, so for this reason the FRC have decided to remove it altogether.

The consequence is that all investment properties must be valued at fair value (except for those rented to another group entity), with gains or losses hitting the profit and loss account and deferred tax calculated. For many companies, if they have previously measured at cost using this exemption, they must now assess a fair value. It is worth noting that the valuation does not necessarily need to be undertaken by an expert valuer, and directors could possibly value the investment property, although full FRS 102 adopters will need to disclose in the financial statements the methods and significant assumptions made by management in determining fair value.

Investment Properties within groups

On the flip side, a new accounting policy choice has been introduced, specifically in relation to investment property rented out to another group entity. Under previous GAAP you measured

these properties at cost less depreciation, although this choice was removed when FRS 102 was introduced. After some feedback, the FRC have decided to allow companies to choose to measure such investment properties rented out to group members at cost (less depreciation and impairment) or fair value.

If the company decides to choose this cost model for such properties, then on transition to this new accounting policy, an entity is permitted to use the fair value of such an investment property as its deemed cost at the date of transition to the Triennial Review 2017 Amendments (i.e. the start of the comparative period). It is worth noting, that all other investment properties rented out to third parties must be measured at fair value and there is no cost model choice.

Director/shareholder loans exemption

For most small companies, director/shareholders will enter into loans with the company at lower than market interest (or zero interest). FRS 102 initially stated that these loans were "financing transactions" and the present value should be measured on initial recognition, with the difference being a capital contribution. Changes made in May 2017 and subsequently by the triennial amendments have simplified this area for small entities. They are now allowed an option to measure loans from a director (or their group of close family members when that group contains at least one shareholder) at transaction price, rather than present value.

Companies that have avoided the present value calculation by making these type of loans legally repayable by demand and classified these as short term liabilities, can now think about the way this debt is structured without having to complete the present value calculation. Many companies may be pleased to know that this exemption may be early adopted in isolation to the other changes. Whereas, if a company want to early adopt most other changes from the Triennial Review, it triggers the early adoption of all changes.

Intangibles acquired in business combinations

The FRC have amended section 18 on intangible assets acquired in a business combination. The requirements have now changed so that entities are only required to recognise such intangible assets separately from goodwill if they meet the recognition criteria, are separable and arise from contractual or other legal rights. Companies are still given the choice to separately recognise additional intangible assets though this is now a policy option rather than a requirement.

Other important amendments

FRS 102 Section 1A has been updated to reflect the implementation of the EU Accounting Directive in the Republic of Ireland, so all Irish disclosure requirements are in an appendix to the standard. A new appendix has been inserted (Appendix D) setting out the disclosure requirements applicable to small entities in the Republic of Ireland.

Statement of Cash Flows - Net debt reconciliation introduced

The FRC have introduced the requirement to disclose a net debt reconciliation. This disclosure is based on, but not identical to, the requirements of "old GAAP", FRS 1 Cash Flow Statements.

Whilst changes brought about by the Triennial Review are relatively isolated, the effect for some businesses may be significant so it is important that affected clients are primed for the changes that will hit for periods commencing on or after 1 January 2019. The full text of the Triennial Review can be found on the FRC website.

CPD Course: Triennial Amendments-Implementing the Changes to UK GAAP

The first Triennial Amendments to FRS 102, issued in December 2017, represent the first comprehensive overhaul of new UK GAAP. It's vitally important that preparers and auditors of FRS 102 accounts understand the amendments, their effect on the accounts, and whether these should be early-adopted.

Our CPD course **Triennial Amendments- Implementing the Changes to UK GAAP** is running in venues throughout the UK later this year and will provide an in-depth look at the amendments. **Click here to find out more and book online** or contact our friendly team on the details below.

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