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The Future of UK GAAP: Where are we up to?

2012 will hopefully see a breakthrough in the progress towards changing UK GAAP. Although it is fair to say many practitioners are not in favour of the change, a lot of work is being done at the Accounting Standards Board (ASB) to make sure that the change is as painless as possible for those who will be affected.

When the Financial Reporting Standard for Mid-sized Entities (FRSME) was first issued it contained some quite significant differences between how we do things now as opposed to how the ASB planned FRSME to work in the future. The most notable differences related to prohibition of revaluation of fixed assets and the recognition of deferred tax using a temporary difference approach as opposed to what FRS 19 currently uses which is that of a timing difference approach. In addition the prohibition of capitalising borrowing costs did not exactly bode well with entities such as Housing Associations. There was also a bit of uncertainty surrounding the future of FRSSE.

Effective date

The Board have tentatively agreed to defer the effective date of the new GAAP until 1 January 2015.

Deferred tax

In the meeting held on 8 September 2011, the ASB acknowledged that it had received a number of 'adverse comments' relating to the inherent complexities contained in its proposals for income tax. The proposals were in line with IAS 12 *Income Taxes* which recognises deferred tax using a temporary, rather than timing, difference approach. The ASB have asked its staff to develop a revised income tax section which would focus on providing consistent accounting with IAS 12 by applying a timing difference approach with additional tax effects in certain situations.

Subsidiaries

Also in the meeting held on 8 September 2011, the Board made the tentative decision to proceed with reduced disclosures for subsidiaries, with the exception of a subsidiary that is a financial institution that will not be permitted from the disclosure exemptions contained in IFRS 7 *Financial Instruments: Disclosures*.

Public accountability

The definition of public accountability was tentatively removed from the draft FRMSE. As a result it proposed to make amendments to the draft FRSME as follows:

1. For entities whose debt or equity instruments are traded in a public market; or that file, or are in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market or who choose to provide such information, reference will be made to follow EU-adopted IFRS. This will apply in the following areas:
 - Segment reporting (IFRS 8)
 - Earnings per share (IAS 33)
 - Interim reporting (IAS 34)



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2. With regards to discontinued operations (IFRS 5), the ASB are going to consider a further paper which will consider the requirements in the draft FRSME and whether clarification is can be provided.
3. For those involved in insurance accounting, reference will be made in Section 10 *Accounting Policies, Estimates and Errors* of the draft FRSME to IFRS 4 *Insurance Contracts*.
4. There are areas which are not sufficiently addressed in the draft FRSME relating to disclosures for financial institutions. In this respect it is proposed that Section 34 *Specialised Activities* will be increased to deal with these.

Companies legislation – formats

The format of financial statements in the UK is dictated in the Companies Act. The Board tentatively decided that companies legislation must take precedence and that the draft FRSME should be amended to reflect the requirements in legislation.

Public benefit entities

FRED 45 was issued relating to public benefit entities in March 2011 which was a supplementary exposure draft. In the meeting held on 29 September 2011, the Board tentatively decided to amend the draft FRSME in order to incorporate the requirements in FRED 45 as opposed to issuing separate guidance for public benefit entities with the intention that the draft FRSME would clearly identify public benefit supplementary paragraphs.

The Board also acknowledged that public benefit entities and those in the agricultural sector had concerns relating to how government grants were to be accounted for in the proposed FRSME. In response to these concerns, the Board asked its staff to consider amending the draft FRSME so that the current accounting practice in the UK and Ireland would remain unchanged. It was noted that this would only be an interim solution and a review of grant accounting would have to take place in the near future.

In its meeting on 20 October 2011, the ASB discussed how donated inventory and incoming resources from non-exchange transactions should be treated. It tentatively decided that the fair value of the donated inventory on initial recognition should be the deemed cost for the purposes of valuing this inventory. An entity that holds inventory for distribution that has no selling price should value this inventory at current replacement cost.

When a PBE receives incoming resource from non-exchange transactions the ASB tentatively decided that these resources should only be recognised when the resource (the donated goods) can be measured reliably and where consideration is given to the benefits and costs. If it is not practical to estimate the value of donated goods with sufficient reliability or benefit, the income will only be recognised when the goods are sold.

In the meeting on 17 November 2011, the Board agreed that:

- Property held for the provision of social benefit will not be classified as investment property.
- The definition of 'value in use' is to be amended in order to include assets held for service potential.
- There would be no amendments to the ASB's proposals for concessionary loans.



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- The FRSSE will be amended to require public benefit entities that apply the FRSSE to pay attention to the requirements for PBEs in the [draft] FRSME.

Pension funds

The ASB said it would provide guidance in its revised FRSME on accounting for pension fund accounts which would then be developed into the pension's SORP.

FRSSE

In the meeting held on 15 December 2011, the ASB agreed that FRSSE would be maintained, but in a revised form, following the amendments to the Accounting Directives which are currently proposed by the EU. It also agreed that a further consultation on the FRSSE would be carried out this year.

Also, with regards to the FRSSE, in its meeting held on 17 November 2011, the ASB tentatively decided on two further amendments to the FRSSE:

- the presumed life of goodwill and intangible assets will be revised to five years when an entity is not able to make a reliable estimate of its useful life; and
- an entity will be required to carry out impairment tests annually on assets when there is any indication that an asset is impaired.

Conclusion

This article has provided a brief summary as to where the ASB are up to with the future of UK GAAP. The ASB are listening to concerns from interested parties as to the effects the proposed new standard will have on companies and clients and are trying to accommodate, wherever possible, the recommendations. Hopefully we will all be given definitive date of implementation this year – time will, of course, tell.



Steve Collings is the audit and technical partner at Leavitt Walmsley Associates and the author of [Interpretation and Application of International Standards on Auditing](#) (Wiley 2011). He is also the author of [The AccountingWEB Guide to IFRS](#) (Sift Media May 2011) and [IFRS For Dummies](#) (Wiley 2012) and was named Accounting Technician of the Year at the British Accountancy Awards 2011.