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How we can help

Initial impact assessments

Over recent months we have been preparing initial impact assessments for a number of clients. As part of this process we review the financial statements of selected entities and prepare a detailed report which provides:

- An overview of the requirements.
- Key recognition and measurement differences and their likely impact on the profit and loss account and balance sheet.
- Accounting policy choices.
- Practical implications of each GAAP difference – such as where the change in accounting may have an impact on taxation or distributable reserves.
- Actions for co-ordinating the conversion efforts across the group.

We can also:

- Review your calculations and provide assurance on them to the board or other parties.
- Work with our tax colleagues who can provide tax assurance services on the consequences of the changes.
- Provide training to both finance and non-finance personnel on these accounting developments.

Accounting Advisory Services

Are you concerned about getting the right accounting answer in an ever more complex accounting environment? Perhaps you're looking for a sounding board – someone to call for informal accounting advice? Or are you concerned about keeping your finance team up-to-date with developments and trends in accounting and reporting? More than ever, companies are seeking specialist accounting advice as they strive to keep up to speed in a constantly changing regulatory environment.

AAS is a dedicated team of accounting specialists. We are a client facing team with a track record of helping clients with a wide range of accounting issues. We combine in-depth knowledge of accounting requirements with practical, commercial experience.

We are committed to helping you reach the right accounting answer in the context of reporting objectives, commercial reality and regulatory requirements.

We invite you to discuss your concerns in relation to the impact of the changes proposed or any other accounting issues with your usual KPMG contact or alternatively, contact a member of AAS:

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KPMG
cutting through complexity

New UK GAAP

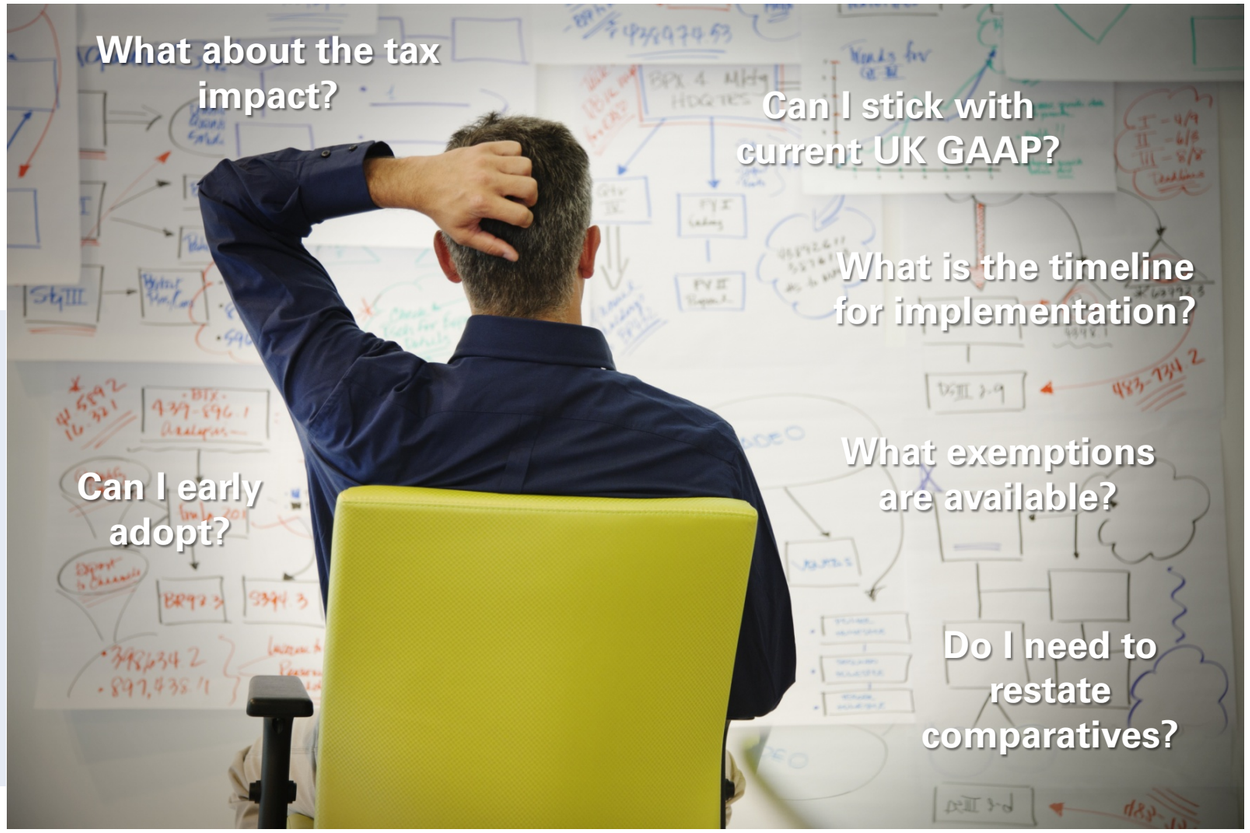
Your questions answered

Do all subsidiaries need to follow the same standard?

What is a qualifying entity?

What are the key accounting differences?

What should I do now?



Your questions answered

How will the new regime work?	
What is happening?	■ UK GAAP as we know it is being replaced by a new financial reporting framework with 3 new standards FRS 100, FRS 101 and FRS 102 and existing FRSs, SSAPs and UITFs withdrawn.
What are FRSs 100, 101 and 102?	■ FRS 100 – Application of financial reporting requirements: This tells you which standard to apply, how to apply the SORPs and the effective date of the new regime. ■ FRS 101 – Reduced disclosure framework: Gives a list of disclosure exemptions for 'qualifying entities' applying recognition and measurement requirements of EU-IFRS. ■ FRS 102 – The financial reporting standard applicable in the UK & Republic of Ireland: The IFRS-based standard which replaces the existing FRSs, SSAPs and UITFs. It also provides a list of disclosure exemptions for 'qualifying entities' applying FRS 102.
What are my options?	■ You will need to choose between EU-IFRS, FRS 101, FRS 102 and FRSSE.
What is a 'qualifying entity'?	■ A 'qualifying entity' is a member of a group where the parent of that group prepares publicly available consolidated financial statements, in which that member is included, that are intended to give a true and fair view. A charity may not be a qualifying entity for the purposes of FRS 101.
Are there special rules for financial institutions?	■ Financial institutions, which may include group treasury companies, can take advantage of most of the disclosure exemptions in FRS 101 and FRS 102 but are not exempt from the financial instrument disclosures.
Are the standards final yet?	■ FRS 100 and FRS 101 were finalised in November 2012. FRS 102 was finalised in March 2013.
Can I stick with current UK GAAP?	■ No. All existing FRSs, SSAPS and UITFs are being replaced by FRS 102 for periods beginning on or after 1 January 2015.
What is happening to the SORPs?	■ The majority of the SORPs will continue to apply and will be updated to reflect the requirements of FRS 102.
Do all subsidiaries need to follow the same standard?	■ The subsidiaries in a group that produces UK consolidated accounts need to either all produce IAS accounts (using full EU-IFRS) or all produce Companies Act accounts (where there is a choice on a company-by-company basis between FRS 101 and FRS 102).
What about compliance with the Companies Act when adopting FRS 101?	■ As accounts prepared under FRS 101 are Companies Act accounts, there are a limited number of changes to be made to EU-IFRS recognition, measurement and presentation, for example the format of the primary statements must be in line with the Companies Act.
How do I choose between FRS 101, FRS 102 and EU-IFRS?	■ There is a lot to consider, and not just accounting differences. Tax, distributable reserves, systems and controls, training requirements, financial covenants and performance related remuneration schemes may all affect your decision.
Can subsidiaries that apply EU-IFRS currently move to FRS 101 or FRS 102?	■ Yes. A change in company law means you can change from EU-IFRS to FRS 101 or FRS 102 once in a 5-year period. The exception is listed groups which are still required to produce EU-IFRS consolidated accounts.
Do I need to restate comparatives?	■ Yes. In the first year you produce accounts under the new standards you will need to produce a comparative balance sheet and income statement and a transition balance sheet. For a December year end adopting the new standards for the year ending 31 December 2015, you will need a comparative balance sheet at 31 December 2014 and a transition balance sheet at 31 December 2013, with a comparative income statement for the year ending 31 December 2014.
What disclosure exemptions are available?	■ Both FRS 101 and FRS 102 allow certain disclosure exemptions in the accounts of 'qualifying entities'. The shareholders need to be notified of, and not object to, the exemptions being taken and details of the exemptions taken need to be disclosed in the accounts. Some exemptions are similar to those under current UK GAAP, such as the exemption from preparing a cash flow statement, and others arise where there is a broadly equivalent disclosure in the group accounts, such as financial instruments and related parties. In the latter case, if the disclosure is omitted from the group accounts on the grounds of materiality then no exemption is available in the individual entity financial statements if material to the entity.

Your questions answered (cont.)

How will the new regime work? (continued)	
What is the timeline for implementation?	■ The new financial reporting regime applies to accounting periods commencing on or after 1 January 2015.
Can I early adopt?	■ FRS 101 can be adopted early with immediate effect. ■ Early application of FRS 102 is permitted for accounting periods ending on or after 31 December 2012.
Do all subsidiaries in a group need to change at the same time?	■ No. As long as all subsidiaries and the parent company's individual accounts are transitioned within the mandatory timeframe, some can early adopt FRS 101 or FRS 102 whilst others delay transition and remain on current UK GAAP.
Do dormant companies need to change their reporting framework too?	■ No. Dormant companies can keep their existing accounting policies until there is a change to their balances or the company undertakes any new transactions.

What are the key accounting differences?	
Derivatives to be recognised on balance sheet at fair value with changes in profit and loss. **Hedge accounting** allowed when strict criteria are met.	No multi-employer exemption for **group defined benefit pension schemes**.
Guaranteed increases in rental payments and **lease** incentives recognised over lease term.	Movements in **investment property** measured at fair value are recognised in profit and loss instead of through reserves.
No concept of '**permanent as equity**' loans in individual company accounts.	**Net investment hedging** is not permitted in individual company accounts.
Intercompany balances to be initially measured at fair value.	**Borrowing and development costs** may be expensed or capitalised under FRS 102 but must be capitalised under EU-IFRS and FRS 101. In both cases capitalisation is permitted only if certain criteria are met.
Goodwill amortised under FRS 102 but not under EU-IFRS or FRS 101.	Generally more **deferred tax** recognised than under current UK GAAP.

What is the tax impact?	
Impact on accounting profit and therefore potentially **taxable profit**.	Additional tax credit/expense may arise from **transition adjustments**.
Existing tax planning may become obsolete if based on current UK GAAP and **more beneficial tax planning** may be available.	May be a change in **timing of tax deductions.**
Additional **iXBRL tagging** may be required in the year of transition where there have been changes in presentation or disclosure in the financial statements.	**Time sensitive elections** may need to be made.

What should I do now?	
Understand the **timeline** to transition for your group.	Maintain **dialogue with stakeholders** (shareholders, lenders etc) to ensure they are aware of the changes and the impact.
Perform a **review** of the accounts that will be subject to the change to identify key accounting differences between the different frameworks available and decide which framework would be most appropriate for your entities.	Consider **training** requirements for staff that will be implementing the change.
Identify any **time sensitive decisions** to be made.	Consider any upgrades to **systems and processes** that may be required.
Consider whether any **restructuring** within the group would be beneficial e.g. to prevent **dividend blocks**.	Consider the **tax** impact of conversion.