Financial Reporting News

FRC revises UK and Ireland accounting standards

The Financial Reporting Council (FRC) recently issued comprehensive improvements to financial reporting standards applicable in the UK and Republic of Ireland which are used by an estimated 3.4 million businesses.

The amendments are designed to enhance the quality of UK financial reporting and help support the access to capital and growth of the businesses applying them.

The most significant changes apply to leases and revenue recognition to align with recent changes to international financial reporting standards. The changes will provide better information to users of financial statements including current and potential investors and lenders.

In response to stakeholder feedback, the FRC has made improvements to the proposals for lease accounting and revised the recognition exemption for leases of low-value assets to clarify that the focus is to ensure that the most significant leases are recognized on balance sheet.

The FRC has also made a number of improvements and clarifications that are designed to make it easier for preparers to apply and understand the standards. These are expected to result in a net benefit to UK businesses and contribute to high-quality, easier to understand financial reports.

Find out more

New IFRS Accounting Standard will aid investor analysis of companies’ financial performance

The International Accounting Standards Board (IASB) recently completed its work to improve the usefulness of information presented and disclosed in financial statements. The new Standard, IFRS 18 Presentation and Disclosure in Financial Statements, will give investors more transparent and comparable information about companies’ financial performance, thereby enabling better investment decisions. It will affect all companies using IFRS Accounting Standards.

IFRS 18 introduces three sets of new requirements to improve companies’ reporting of financial performance and give investors a better basis for analyzing and comparing companies:

Improved comparability in the statement of profit or loss (income statement)

Currently there is no specified structure for the income statement. Companies choose their own subtotals to include. Often companies report an operating profit, but the way operating profit is calculated varies from company to company.

IFRS 18 introduces three defined categories for income and expenses – operating, investing and financing – to improve the structure of the income statement, and requires all companies to provide new defined subtotals, including operating profit. The improved structure and new subtotals will give investors a consistent starting point for analyzing companies’ performance and make it easier to compare companies.

Enhanced transparency of management-defined performance measures

Many companies provide company-specific measures, often referred to as alternative performance measures. Investors find this information useful. However, most companies don’t currently provide enough information to enable investors to understand how these measures are calculated and how they relate to the required measures in the income statement.

IFRS 18 therefore requires companies to disclose explanations of those company specific measures that are related to the income statement, referred to as management-defined performance measures. The new requirements will improve the discipline and transparency of management-defined performance measures and make them subject to audit.

More useful grouping of information in the financial statements

Investor analysis of companies’ performance is hampered if the information provided by companies is too summarised or too detailed. IFRS 18 sets out enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

The changes are expected to provide more detailed and useful information. IFRS 18 also requires companies to provide more transparency about operating expenses, helping investors to find and understand the information they need.

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, but companies can apply it earlier. Changes in companies’ reporting resulting from IFRS 18 will depend on their current reporting practices and IT systems.

IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1 unchanged.

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