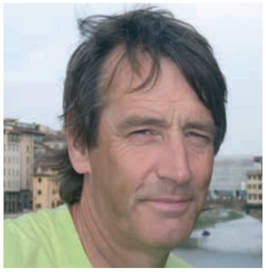
BY
Robert Kirk

FRS 102: The transitional arrangements

In this edition of Accountancy Plus Robert Kirk examines the need for accountants to prepare well in advance in order to ensure a smooth transition to the new standard.



Robert Kirk CPA is Professor of Financial Reporting at the University of Ulster. Robert is also author of the CPA Ireland Skillnet's recent publication *A New Era for Irish & UK GAAP – A Quick Reference Guide to FRS 102* which is available free of charge to CPA Members on www.cpaireland.ie.

Introduction

Many accountants are still not aware of how close we are to the implementation of FRS 102 to Irish published accounts. The standard must be fully implemented for all accounting periods ending on or after the 31st December 2015 but there is also a requirement to ensure that the comparatives figures are also based on FRS 102. In effect, that means that it has to apply to the year ended 31st December 2014 as well. The standard sets out very clearly in Section 35 how the transitional arrangements will work during that comparative year. It is important, therefore, that all accountants who are involved in the financial reporting of non-listed companies become very familiar with that Section of the standard fairly quickly.

Date of Transition

A large percentage of Irish company financial years' end on the 31st December and these are the companies that must implement FRS 102 first. Other later year ends in March, June and September will follow thereafter. When a company switches over to FRS 102 with a December year end it must identify its date of transition and that is the first day of the previous comparative year end to full implementation i.e. 1st January 2014. That date is only three months away!! This article will concentrate on a company with a 31st December year end but obviously the same process will occur, only later, for other year ends.

What disclosure must be provided?

All entities will have to explain how the transition from adopting FRSs/SSAPs to the new FRS has affected the financial position and performance of the reporting entity. In order to achieve that, the first financial statements (i.e. 31st December 2015) must include:

- a description of the nature of each change made to accounting policies
- a reconciliation of equity reported under FRSs/SSAPs to equity under the FRS for both:
  - the date of transition (i.e. 1st January 2014); and
  - the end of the latest period presented in the entity's most recent annual financial statements under previous SSAPs/FRSs (i.e. 31st December 2014); and
- a reconciliation of profit or loss reported under previous SSAPs/FRSs for the latest period to the profit or loss under the new FRS for the same period (i.e. for the year ended 31st December 2014).

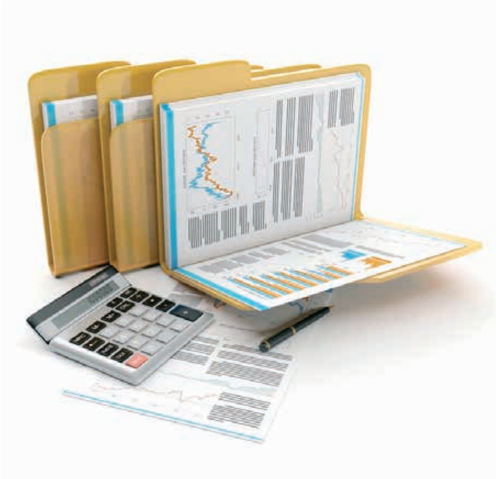
If an entity becomes aware of errors made under previous standards the reconciliations must distinguish those errors from any changes made in accounting policy.

However, if a reporting entity did not previously present financial statements it instead must disclose that fact in its first FRS 102 financial statements.

What is the process that a company must adopt in the transitional phase?

All reporting entities must, in their opening balance sheet at the date of transition carry out the following procedures:

- recognise all assets and liabilities required by the FRS (now an opportunity to capitalise development costs, to include additional intangible assets on an acquisition made in 2014 such as customer lists or non-contractual customer relationships).
- not recognise assets or liabilities if the FRS does not permit such recognition (unlikely to be any but if a company had capitalised home-grown intangibles that is unacceptable under the new FRS.)



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- reclassify items recognised previously as one type of asset, liability, equity etc but are recognised as different types under the FRS (now deferred tax assets must be reclassified as non-current assets); and
- apply the FRS in measuring all recognised assets and liabilities (possible opportunity to go back to cost from fair valuing property, need to recognise gains and losses on investment property through profits and NOT through reserves).

The accounting policies adopted in the opening balance sheet may differ from previous SSAPs and FRSs and therefore any adjustments must be recognised directly in retained earnings at the date of transition to the FRS.

Are there any exemptions from having to carry out the above procedures?

On first time adoption of the FRS, the following must NOT be changed on transition and must continue to be accounted for under previous FRSs or SSAPs:

- de-recognition of financial assets and liabilities (It is not allowed to bring back financial assets or liabilities if previously de-recognised under Irish GAAP nor to bring in new financial assets/liabilities even if they could be recognised under the new FRS)
- hedge accounting (It is not allowed to change hedge accounting before the date of transition for hedging relationships that no longer exist at the date of transition. For those that did exist at the date of transition, one must follow the hedge accounting requirements of Section 12 including the requirements for discontinuing hedge accounting)
- accounting estimates;
- discontinued operations;
- measuring non-controlling interests (only split profit and other comprehensive income prospectively and one must not change previous accounting for loss of control nor changes in a parent's interest not involving a change in control).

In addition, there are a number of other possible exemptions which entities may adopt:

Business combinations

Companies may elect not to adopt Section 19 for past combinations but if they do restate any previous combination they must also restate all later combinations i.e. if treated as a merger previously there is no need to adjust to acquisition accounting for past business combinations.

Share based payment transactions

Companies are encouraged but not required to apply Section 26 to equity granted schemes before the date of transition or to liabilities settled before the date of transition.

Fair value as deemed cost

Companies may adopt the previous revaluation under the FRSs/SSAPs as their deemed cost of an asset under the FRS.

Compound financial instruments

There is no need to separate its two components into debt/equity if the debt component is not outstanding at the date of transition.

Service concession arrangements (i.e. PPP/PFI)

Not required to apply Section 34 to service concession arrangements entered into before the date of transition to the FRS.

Extractive activities

If a company has adopted full cost accounting under FRSs/SSAPs it may elect to measure oil and gas assets on the date of transition at the amount determined under the FRSs/SSAPs. However, those assets must be tested for impairment at the date of transition to the FRS in accordance with Section 27.

Arrangements containing a lease

A company may elect to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.

Decommissioning liabilities included in the cost of property, plant and equipment

Section 17 states that the cost of an item of property etc includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Entities may elect to measure this component of the cost of an item of property at the date of transition, rather than on the date(s) when the obligation initially arose.

Dormant companies

These companies may elect to retain their existing accounting policies for the measurement of reported assets, liabilities and equity at the date of transition to this FRS until there is any change to those balances or the company undertakes any new transactions.

Deferred development costs

A first-time adopter may elect to measure the carrying amount at the date of transition to this FRS for development costs deferred in accordance with SSAP 13 Research and development as its deemed cost at that date.

Borrowing costs

An entity electing to adopt an accounting policy of capitalising borrowing costs as part of the cost of a qualifying asset may elect to treat the date of transition to this FRS as the date on which capitalisation commences.

Public benefit entity combinations

A first time adopter may elect not to apply Section 34 relating to PBE combinations that were effected before the date of transition to this FRS. However, if on first-time adoption a PBE restates any entity combination to comply with this section, it must restate all later entity combinations.

What happens if I cannot restate the comparatives?

If a company finds it impracticable to restate the opening balance sheet at the date of transition for one or more of the adjustments it must apply those adjustments to the earliest period for which it is practicable to do so, and also identify the data presented for prior periods that are not comparable with the data for the period in which it prepares its first financial statements that conform to this FRS.

If it is impracticable to provide any disclosures required by FRS 102 for any period before the period in which it prepares its first financial statements that conform to this FRS, the omission must be disclosed.

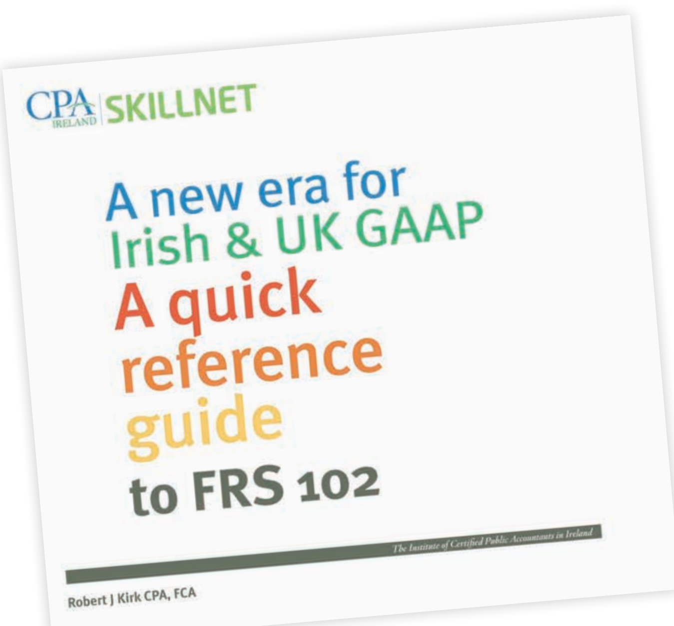
A worked example can be found in the Technical Resource area of the CPA website www.cpaireland.ie

Summary

Practitioners and accountants in industry need to start thinking about these transitional issues now. Clearly it is important to understand the main differences between FRS 102 and current Irish GAAP. Once the differences are identified it will provide preparers with an indication as to how much work will be involved. Preparers should not wait until they MUST adopt FRS 102 to start thinking about the impact it will have on their financial statements. They should start planning NOW!

However, the FRC has tried, as far as possible, to align current standards more or less to their international counterparts and therefore still offer a number of options to preparers. For many preparers, therefore, there may only be a couple of transitional adjustments.

I have authored A New Era for Irish & UK GAAP - A Quick Reference Guide to FRS102 for CPA Ireland outlining the main issues in the standard. This publication is available free of charge for members of CPA Ireland and should provide you with a useful starting point.



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