Changes in financial reporting

The time to act is now...

Originally Published: January 2014 Updated: January 2016

The most comprehensive changes to accounting requirements in a generation lie ahead; changes that will affect all of your clients. Whether it be changes to small company reporting rules; or the effect that FRSs 100-105 will have on small, non-small and specialist clients, this transition cannot be avoided. And like it or not, your existing knowledge will no longer be enough.

Yet too often we hear comments such as “I’ll think about it when it happens” or “it only affects large companies”. If you take this approach there is a risk that you will be lulled into a false sense of security, which will only store up potential problems for the future. For some clients the best time for assessing the impact of, and gathering information to help with, these financial reporting changes could be passing you by.

In this commentary we outline some of the key considerations that you need to think about now. These will help you to avoid unnecessary, potentially costly, repercussions in the future.

Understand the options

Whatever financial reporting regime your clients are subject to, there will be changes ahead. With these changes come a number of options.

On first implementation of FRS 102, for example, there are options affecting areas ranging from financial statement presentation, to accounting policy choices to transitional provisions. These may benefit some of your clients and provide them with a rare opportunity to make a change.

In order to assess their options, your clients need to be in a position to understand how the change will affect their accounts and will look to you for guidance. Being ready to explain these options to your clients is, therefore, clearly important.

Change often also leads to new marketing initiatives and your clients may find other firms targeting them, highlighting new benefits that may be available.

For example, using a valuation as deemed cost at transition date for fixed assets under FRS 102 may be a useful, one-off, boost to the balance sheet. Other options on transition may have a tax impact, which could also be attractive to clients.

Your clients need to hear about these options from you.

The new financial reporting requirements

New UK GAAP

FRS 100: Application of Financial Reporting Requirements
Provides an overview of the financial reporting regime for periods commencing on or after 1 January 2015 (early adoption allowed).

FRS 101: Reduced Disclosure Framework
A reduced disclosure framework for individual financial statements of qualifying subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards (IFRS).

FRS 102: The Financial Reporting Standard applicable in the UK and Ireland
Replaces existing UK GAAP for entities that are not entitled to report as small, or who choose not to, and are not required to report under IFRS for periods commencing on or after 1 January 2015.

FRS 102 (Section 1A): The Financial Reporting Standard applicable in the UK and Ireland
Brings small entities that are not entitled to, or choose not to report as a micro-entity into the scope of FRS 102, with reduced disclosure requirements. Replaces the FRSSE for periods commencing on or after 1 January 2016 (early adoption allowed for periods commencing on or after 1 January 2015).

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Assess the impact

The changes stemming from the new FRSs, resulting SORPs or legislative reporting requirements mean that you need to consider the extent of their impact on your clients and their individual financial reporting needs.

Taking small companies as an example, The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 increase the small company size limits for accounting periods commencing on or after 1 January 2016 (with early adoption available a year earlier). This will redefine what we currently look at as 'small'. This could affect the scope of financial reporting requirements for some of your currently 'larger' clients, allowing them to take advantage of the small companies' regime. Along with changes to the size limits, the legislation also proposes disclosure changes for small companies which will generally lead to a reduction to the information provided in a set of full small company accounts. However, abbreviated accounts will no longer be an option so more information will become publicly available.

Your smaller clients may, therefore, require help to assess the best route to ensuring their accounts will meet the financial information needs of users of their accounts.

They may also need help to understand the impact of falling inside of planned increases to audit exemption limits; do they still want an audit, or are other assurance routes preferable? Look to identify these clients so that you can communicate with them to explain their options as soon as the government's audit exemption plans are finalised.

Changes for specialist clients, such as charities and others where SORPs apply, could be extensive. Again, be ready to consider how they will affect your individual clients. Working out who you communicate what to, and when, will help you ensure as smooth a transition as possible. This will also help with time planning and addressing cost considerations at an early stage.

Train your team

Teams from top to bottom need to understand the new reporting requirements. This does not simply mean having a vague grasp of the main differences from current UK GAAP. Your team must be able to identify specific issues relevant to your clients, spot opportunities and gather information required now in order to save time and cost in the future. You and your team need to be confident that you can talk to your clients about how their accounts may change.

That said, it will not be too long before the time for talking will be over and your team will need to implement these changes in practice. Is your team ready? Identification of training needs and working out a plan to get everyone up to speed is essential.

Some good news is that some members of your team may be familiar with certain aspects of IFRS, for example, financial instruments, which may prove to be useful where similar concepts are found in the new UK GAAP.

New UK GAAP (continued)

FRS 103: Insurance Contracts
Outlines reporting requirements for entities applying FRS 102 that issue insurance contracts.

FRS 104: Interim Financial Reporting
Outlines reporting requirements for entities that apply UK and Irish GAAP and prepare interim financial reports for periods commencing on or after 1 January 2015.

FRS 105: The Financial Reporting Standard applicable to the Micro-entities Regime
Outlines reporting requirements for entities reporting under the micro-entities regime for accounting periods commencing on or after 1 January 2016 (early adoption allowed). The standard provides significant simplification of FRS 102 recognition and measurement requirements.

The Financial Reporting Standard for Smaller Entities (FRSSE)
The FRSSE will be continue to be available for the short term with the majority of small companies expected to adopt FRSSE 2015 for periods commencing on or after 1 January 2015. As above, for periods commencing on or after 1 January 2016, small companies that are not eligible to adopt FRS 105, will fall into the scope of FRS 102.

Harvest transitional information

Though FRS 102 is mandatory for non-small clients for periods commencing on or after 1 January 2015 (and for small clients the year after), any changes that result in restated amounts will be required in the comparative period within those accounts.

This means, for a June 2016 FRS 102 adopter, the opening comparative position will need adjusting at 1 July 2014 and records will need to be kept to enable accounting under the new regime from that date.

Your team should be looking to harvest information required for transitional adjustments now. This, in turn, ought to make the ensuing preparation or audit of the transition more straightforward when the need arises.

Talk tax

Broadly, in many areas tax follows the accounting treatment, unless, of course, there is specific tax legislation in place to the contrary. A different accounting treatment may, therefore, have an impact on tax payable.

The potential consequences of this need to be assessed early so that you can appropriately communicate the effect of any changes and help your clients prepare for any potential cashflow impact of implementing FRS 102 or, in some circumstances, where early adoption may be an attractive option. There may even be some benefit in a qualifying company choosing to adopt either the FRSSE, FRS 102, or FRS 105 depending on the tax effect.

Consider your independence

There can be a fine line between advisory work and accounting services that can be adequately safeguarded against and those that cannot.

For audit clients, care needs to be taken to put in appropriate safeguards, whether this be splitting engagement teams or outsourcing transition accounting work, to ensure that objectivity and independence are not brought into question where conversion to the new accounting standards will give rise to significant ethical threats.

Communicate with your clients

In order to add value to your clients at this key time, your communication will need to be tailored to their individual needs. Communication may, of course, take a number of forms but do actively engage your clients in a discussion of how these changes affect them.

If you have not already discussed the subject, now is the time to start. Some firms have written to a number of their clients, outlining the changes to come as a starting point. Many are finding that adding an agenda point or specific section to their audit communication documents also provides a good opportunity.

Through assessing the likely effect, any time and cost impact of preparing or auditing the transition can also be communicated at a suitably early stage.

Understand your software options

As well as clients needing to consider whether their existing systems remain appropriate under the new reporting regime, so will accountants and auditors. You need to have an understanding of your software provider's plans for dealing with changes affecting micro-entity, small and non-small clients going forward.

Help your clients communicate

Consider who is using your clients' financial statements and for what purpose? The answers to these questions will help determine the scope of your communications and who, if anyone, your clients will, in turn, need to communicate with.

The effects of differing accounting treatments on loan covenants; remuneration and share based payment agreements; acquisition earn-outs; group and bank reporting requirements; distributable reserves and tax will be amongst those areas needing early consideration to enable effective, early communication with any other affected stakeholders.

Put time in your diary

Finally, allow yourself sufficient time to get to grips with these changes. You need to have a clear understanding of what is changing before you can begin to assess the impact the changes may have on your clients.

By ensuring that the detailed planning is undertaken now, before the time for implementation hits, you put yourself in the best possible position to advise your client properly and reduce the likelihood of time intensive, cost heavy surprises in the future.

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- client letters
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- blogs
- e-learning library

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Find out more about the range of services we can provide to help you and your clients with the transition to new UK GAAP

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