PKF FRANCISCLARK
Chartered accountants & business advisers

New UK GAAP - Can you account for it?

From 2015 a complete overhaul of UK accounting standards will change how and when companies account for certain assets and liabilities with potential implications on profitability and net assets.

This is the first major change in UK GAAP for many years and will involve both cost and short-term challenges. The extent of the impact will depend on a company's activities, assets and liabilities but while some may find it fairly painless, others will need to make significant changes to how they report their financial performance and position. The changes may also impact on commercial arrangements such as bank covenants, earn-out agreements and remuneration schemes. Companies should have started planning for the change by now.

Key things you need to know

- The new regime will completely replace existing FRSs, SSAPs and Abstracts
- Companies will be required to restate their comparative figures the first time they adopt the new rules, with a potential hit against retained profit
- There will be opportunities to review existing policies and take advantage of one-off valuation adjustments on property
- Some of the new requirements, such as fair valuing interest rate swaps and forward contracts, are complicated and unfamiliar to many UK GAAP users

The details - in brief

What?

Existing UK accounting standards will be replaced with a new single standard, FRS 102.

Who?

The new regime will apply to any company that is not eligible to use the small companies' regime and is not required, or does not choose, to apply EU-adopted IFRS.

When?

Accounting periods beginning on or after 1 January 2015, although earlier adoption is permitted.

How?

- Establish your "transition date". This is the beginning of the comparative period to the one in which you first apply the new rules. For those adopting from 1 January 2015 it is 1 January 2014;
- Identify transactions and balances which will be accounted for differently under FRS 102 – the extent of differences will depend on the nature and complexity of your existing operations;
- Consider the commercial and strategic implications of changes to reported profit and net assets;
- Determine new accounting policies where existing policies are no longer applicable;
- Calculate the financial impact of the changes as at your "transition date" – these will be reported as a prior year adjustment, with reconciliations of the effect on equity and profit required.

Key questions

- Do you use forward rate agreements or swaps to manage interest rate or foreign exchange fluctuations?
- Do you lease property, either as a landlord or a tenant?
- What benefits do you provide to your staff – paid holiday, defined benefit pensions?
- Are you planning acquisitions or disposals in the next two years?
- How much profit do you currently have to fund dividends or share redemptions?
- How sensitive are your bank covenants?
- Will the new regime affect how much tax you pay and when?
- What will your stakeholders (shareholders, creditors, etc.) need to know about the changes?

How can PKF Francis Clark help?

We can help you through both the technical and commercial aspects of the conversion process by:

- Assessing the impact of FRS 102 on your existing financial statements
- Advising on strategic and commercial solutions
- Reviewing policy alternatives
- Providing support with calculations
- Assisting in explaining the changes to stakeholders

Contact details

Stephanie Henshaw, Partner
Exeter 01392 667000
stephanie.henshaw@pkf-francisclark.co.uk

Chris Hicks, Partner
Torquay 01803 320100
chris.hicks@pkf-francisclark.co.uk

Charles Evans, Partner
Plymouth 01752 301010
charles.evans@pkf-francisclark.co.uk

Glenn Nicol, Partner
Exeter 01392 667000
glenn.nicol@pkf-francisclark.co.uk

Scott Bentley, Partner
Truro 01872 276477
scott.bentley@pkf-francisclark.co.uk

Nick Farrant, Partner
Taunton 01823 275925
nick.farrant@pkf-francisclark.co.uk

Mike Bath, Senior Manager
Salisbury 01722 337661
mike.bath@pkf-francisclark.co.uk

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PKF Francis Clark has eight offices in the South West: Exeter, New Forest, Plymouth, Poole, Salisbury, Taunton, Torquay and Truro. Please visit www.pkf-francisclark.co.uk for contact details of your nearest office.