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## UK GAAP: A practical guide to making the transition

A guide to the new accountancy standards

Accountants aren't known for being in the business of change. While the external environment around them and the numbers coming in may change, an accountant brings stability and reliability to a business by using established practices to ensure complete compliance.

But now the rules governing accounting standards are undergoing the biggest change in 30 years. And, while accountants have been bracing themselves for a potentially seismic change for a while now, many businesses could be forgiven for being unaware that anything was changing at all. So what is changing and how should businesses begin to get ready for the transition?

### What is changing?

Previously, the rules of accounting standards and reporting were governed by a series of regulations under the name of the Generally Accepted Accounting Practice in the UK (UK GAAP) and other guidance published by the UK's Financial Reporting Council (FRC). UK GAAP functioned as the overall set of regulations covering how a company's annual accounts must be prepared.

From 1 January 2015, a new financial reporting framework came into effect which consisted of 4 standards published by the FRC. These new standards, collectively known as the New UK GAAP, are being phased in gradually to replace the old system.



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The main aims of the new system is to:

- make the reporting requirements of specific companies relative to their size
- reduce the complexity of UK GAAP
- bring the UK in line with International Financial Reporting Standards (IFRS).

Critics of the old system said it placed an unnecessary burden on practitioners due to its complexity and patchwork nature. There was perceived to be an overall lack of consistency and a failure to ensure standards evolved and adapted to a changing global environment. In a 2009 policy document, the FRC stated that it wants the new system to reduce the cost of compliance while effectively balancing the need for less complexity with that of providing "relevant and understandable financial information".

So what are the new standards that form the foundation of the emerging system?

#### FRS 100

The Application of Financial Reporting Requirements, this standard sets out the framework of the New UK GAAP.

#### FRS 101

The Reduced Disclosure Framework, this standard outlines the financial reporting requirements and disclosure exemptions that apply to certain kinds of subsidiary organisations and their ultimate parent companies.

## FRS 102

Named The Financial Reporting Standard applicable in the UK and Republic of Ireland, FRS 102 became mandatory for accounting periods commencing on or after 1 January 2015. This is the standard that applies to most businesses, and is based on the pre-existing IFRS for small and medium sized enterprises (SMEs).

While FRS 102 is based on an older standard, it does have some significant differences from the past, namely with regards to investment properties, deferred tax and defined benefit schemes. In terms of what needs to be presented within an annual report, FRS 102 adds a new prominence to cashflow statements, error correction and a move towards alignment with international terminology.

## FRS 103

This standard applies to insurance contracts for companies that use FRS 102.

## FRS 104

This standard relates to interim financial reporting for entities that utilise FRS 102.

## FRS 105

This is a simplified version of FRS 102 for micro businesses.

Contact us today to find out about the New UK GAAP

## Who is affected?

The transition to these new accounting standards will mean that a business' assets, liabilities, profits and losses will be recognised and measured in a new way. This may not sound like a particularly large change to those who are focused on a business's day-to-day operations, but changes in measurement often lead to changes in the numbers being reported. This can have a significant effect on a company's financial position.

For example, some loans have conditions that are based on profit or balance sheet measures and the subtle changes resulting from the move to FRS 102 may move these around.

FRS 102 is likely to apply to the majority of the large and medium-sized businesses in the UK. Smaller entities can use FRS 105. As with everything involving technical financial information however, there are a few caveats.

Firstly, if your business is currently required to apply IFRS then there aren't likely to be any major changes to your reporting obligations.

Secondly, if you currently opt in to applying IFRS you will have the opportunity to continue doing so or to switch over to FRS 102.

So, the changes affect almost the entire business landscape for domestic companies operating in the UK. As a business you are going to legally have to comply with either IFRS, FRS 101, FRS 102 or FRS 105 and begin transitioning your reporting methods over to the new regime.

Get in touch today to make the transition as simple as possible.

## What do businesses need to do?

It should be clear by now that while the New UK GAAP is an important shift in focus and methodology, it has also been purposely designed to lower the burden on businesses when it comes to submitting their annual reports. Most people who are not accountants or those involved in business finance are unlikely to ever have to dive into the technical aspects of these standards.

That being said, the new system is likely to have an impact on your business, so it is important to be aware of the changes. So what form is the transition likely to take for the average small and medium-sized business?

### Establish

Which of the new reporting standards applies to your businesses? Which reduced disclosures are available?

### Identify impact

Once you have identified which standard applies to you, drill down into what the likely impacts on your business.

### Review

Take a look at your internal systems and accounting policies to make sure that all of your records and data is up-to-date and correct.

### Know the date

The final stage is to be aware of the date that you will be transitioning to the new regime and what changes this is likely to entail.

While this might all seem like a confusing mass of acronyms, there is no need to spend your time trying to figure out the complexities of the new system. As accountants this is our bread and butter, and you can be sure that we already know everything we need to help your business make the shift as painlessly as possible.

Talk to one of our team today to ensure a smooth transition.