

HURST TECHNICAL WORKOUT

Presented by

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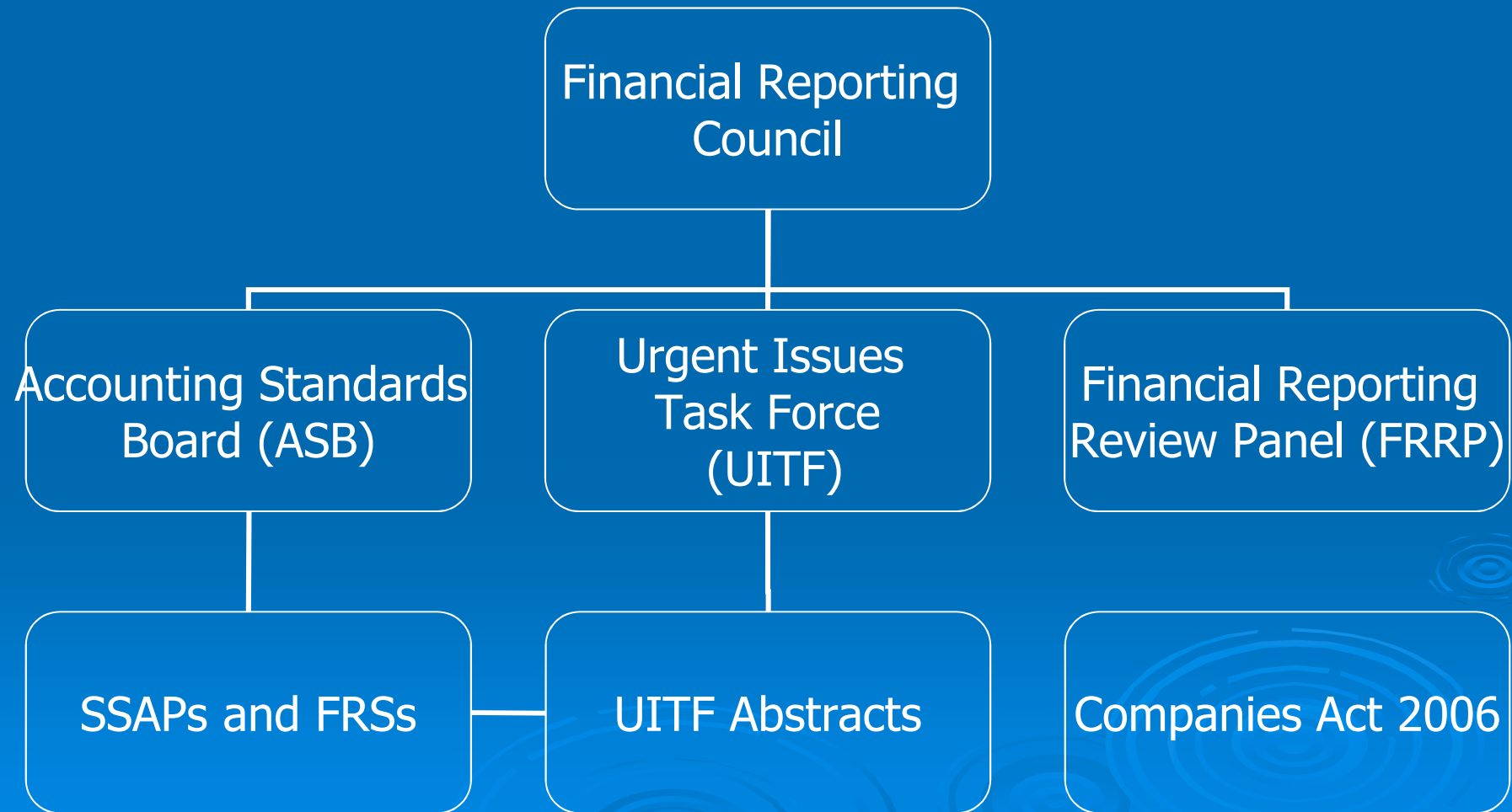
Programme

- UK GAAP – present and future
- New rules
- Companies Act 2006 – the final instalment
- Recession-related accounting issues
- Tax-sensitive issues
- What's going on in audit
- A look into the future....

UK GAAP – PRESENT & FUTURE



Regulatory structure



Recent FRSs

		IAS	Mandatory for all p/c
FRS 20	Share-based payment	IFRS 2	1.1.06
FRS 21	Post balance sheet events	IAS 10	1.1.05
FRS 22	Earnings per share	IAS 33	-
FRS 23	Foreign exchange rates	IAS 21	-
FRS 24	Hyperinflation	IAS 29	-

Recent FRSs

		IAS/IFRS	Mandatory for all p/c
FRS 25	Financial instruments	IAS 32	1.1.05 (part)
FRS 26	Financial instruments	IAS 39	-
FRS 27	Life assurance	IFRS 4	-
FRS 28	Comparatives	N/A	1.1.05
FRS 29	Financial instruments	IFRS 7	-
FRS 30	Heritage Assets	-	1.4.10

Application of IFRS

- UK listed companies
 - Must use IFRS in *consolidated* financial statements only
- Any non-charitable company may choose to apply IFRS
- Public sector
 - Central government and NHS bodies apply IFRS from 2009/2010
 - Local government bodies apply IFRS from 2010/2011

ASB Consultation

POLICY PROPOSAL:

THE FUTURE OF UK GAAP



**ACCOUNTING
STANDARDS
BOARD**

A Brave New World?

2009

International Accounting Standards Board (IASB®)

IFRS® for SMEs

International Financial Reporting Standard (IFRS®)
for Small and Medium-sized Entities (SMEs)

ASB Consultation

	Nature of entity	Accounting regime
Tier 1	Entities that have public accountability	EU-adopted IFRS
Tier 2	Entities that have no public accountability	IFRS for SMEs
Tier 3	Small entities	FRSSE

Key talking points

➤ Tier 1

- Large private companies?
- Subsidiaries of listed groups?
- Building societies, cooperatives etc?

➤ Tier 2

- IFRS for SMEs – compatible with EU directives?
- UK approach – wholesale adoption or amendment of IFRS for SMEs?

➤ Tier 3

- ‘Internationalisation’ of the FRSSE?

Latest proposals

- Reduced disclosure framework for subsidiaries
- Relief for small publicly accountable entities
- Amendments to the IFRS for SMEs
- FRSSE retained
 - References to FRSs removed
- 'GAP' standard for public benefit entities
- ED this Autumn
 - Likely implementation date p/c 1 January 2013?

Micro-entity proposals

- EU discussion paper
 - A simplified business environment for companies
- Remove obligation for micro-entities to apply EU accounting directives
 - <10 employees, <€500K assets, <€1M turnover
- 85-90% of UK companies

NEW RULES

ASB changes

- Amendment to FRS 29
 - Effective p/c 1 January 2009
 - Enhanced disclosure of liquidity risk and fair value measurements

- Amendments to FRS 2, FRS 6 and FRS 28: legal changes
 - Effective p/c 6 April 2008
 - Wording changes to reflect CA06

ASB changes

- FRS 30 - Heritage Assets
 - Effective p/c 1 April 2010
 - Tangible assets held for contribution to knowledge and culture
 - Valuation-based approach recommended
 - Enhanced disclosure – 5 year summary

ASB changes

- Amendment to FRS 20
 - Effective p/c 1 January 2010
 - Clarifies treatment of group share based payments
 - Treatment may change slightly where arrangements are cash-settled
 - UITFs 41 and 44 removed

- Amendments to UITF Abstract 42 and FRS 26
 - Effective p/e 31 December 2009
 - Treatment of embedded derivatives on reclassification of financial instruments

ASB changes

- Improvements to Financial Reporting Standards
 - Mainly effective p/c 1 January 2010
 - Impairment disclosures – value in use

- Amendment to FRS 25 – Classification of Rights Issues
 - Effective p/c 1 February 2010
 - Rights issues denominated in a currency other than the functional currency

UITFs

- **UITF 47 – Extinguishing Financial Liabilities with Equity Instruments**
 - Debt for equity swaps
 - Relevant to companies restructuring in financial difficulty

SORPs

- Revised LLPs SORP
 - Effective p/c 1 January 2010
 - Members' capital – possible reclassification

LLP SORP

	£000
Fixed assets	200
Net current assets	100
Long term liabilities	50
Net assets attributable to members	250
Represented by:	
Loans due to members	240
Equity	10
Members' interests	250

LLP SORP

- An LLP has 10 members. Each provides services to the LLP.
- Each member subscribes £10K as initial capital and has a 10% share of profits.
- A member may demand the return of initial capital (for example on retirement).
- Is the capital subscribed loan or equity?

Discussion Papers

- ASB Report on the Financial Reporting of Pensions
- ASB Review of Narrative Reporting
 - Business Review in Directors' Report

COMPANIES ACT 2006



Implementation

	Issued	Most provisions effective
1st Commencement Order	December 2006	January/April 2007
2nd Commencement Order	March 2007	April 2007
3rd Commencement Order	July 2007	October 2007
4th Commencement Order	September 2007	October 2007

Implementation

	Issued	Most provisions effective
5th Commencement Order	December 2007	April/October 2008
6th Commencement Order	March 2008	April/October 2008
7th Commencement Order	July 2008	August & October 2007
8th Commencement Order	November 2008	October 2009

1 October 2009

➤ Incorporation

- Memorandum is association clause
- All regulations within articles

➤ Articles

- New versions of Table A
- Provisions in existing memorandum become part of articles
- Companies House to be notified of changes to articles

1 October 2009

- Name change
 - Easier
 - Form depends on method of change

- Block on names
 - 'Same as'
 - 'Too like'
 - Company Names Tribunal

1 October 2009

- Disclosure of directors' addresses
 - Residential addresses will remain confidential
- Authorised share capital
 - Abolished
- Statement of capital
 - Required on incorporation and when capital subsequently changed

1 October 2009

- Increased Registrar powers
 - Form and manner of submissions
 - Removal, rectification and annotation of the Register

- Authentication
 - New rules for financial statements and audit reports from 1 October 2009.....

Authentication

- Black ink
- Company name and registered number on BS, DR, (DRR) or AR
- Clear statement of name of director and auditor
- 14 day rule does not apply
- New rules apply to CA06 sets of accounts

Companies House – ‘Common Accounts Rejections’

Reason	Number
Incorrect statement to the accounts	33,349
Duplicate made up date	17,329
Signatory name missing from balance sheet	12,106
CA06 audit exemption statement absent or incorrect	10,277
Accounting reference date/made up date absent or incorrect	10,026
Balance sheet signature omitted	7,755

TRICKY CA06 ACCOUNTING ISSUES



Directors' transactions

➤ OUT

- Interests in shares
- Material interests in transactions
- Transactions with connected persons
- Transactions with other officers

➤ IN

- Advances, credits and guarantees

CA85 v CA06 - Advances

CA85

- Principal terms
- Statement that transaction existed
- Name of the person
- Amount of liability
- Maximum amount of liability during year
- Interest due but unpaid
- Any provisions made

CA06

- Amount of advance
- Any amounts repaid
- Main conditions
- Indication of the interest rate applying

Areas of confusion

- Disclose every movement on overdrawn directors' current account?
- Disclose amounts advanced to directors as a whole or to individual directors?
- Treatment of quasi-loans?
- Treatment in small company abbreviated accounts?

FAQs

➤ Question 1

- Do I need to disclose dividends paid to directors as related party transactions in the notes to the financial statements?

➤ Question 2

- If I do, then must I include the same disclosures in the notes to small company abbreviated accounts?

FAQs

➤ Question 3

- What about dividend payments to directors' spouses?

Small groups – exempt from consolidation

	Turnover	Balance sheet	Employee numbers
Net (Of consolid'n set-offs)	£6.5m (WAS £5.6m)	£3.26m (WAS £2.8m)	50
Gross (Of consolid'n set-offs)	£7.8m (WAS £6.72m)	£3.9m (WAS £3.36m)	50

Question 1 – small?

	Turnover	Balance sheet	Employee numbers
Net	£6.6M	£3.1M	70
Gross	£6.6M	£4.0M	

Question 2

- If individual companies within a medium-sized group qualify as small companies, can they file small company abbreviated accounts?
- Are these same companies automatically exempt from having a statutory audit?

RECESSION-RELATED ACCOUNTING ISSUES



Going Concern - Guidance

- FRC Bulletin – Going Concern and Liquidity Risk (October 2009)
- FRC Bulletin – Guidance for Directors of Companies that adopt the FRSSE (March 2009)

October 2009 Guidance

- Three principles:
 - Assessing going concern
 - The review period
 - Disclosures

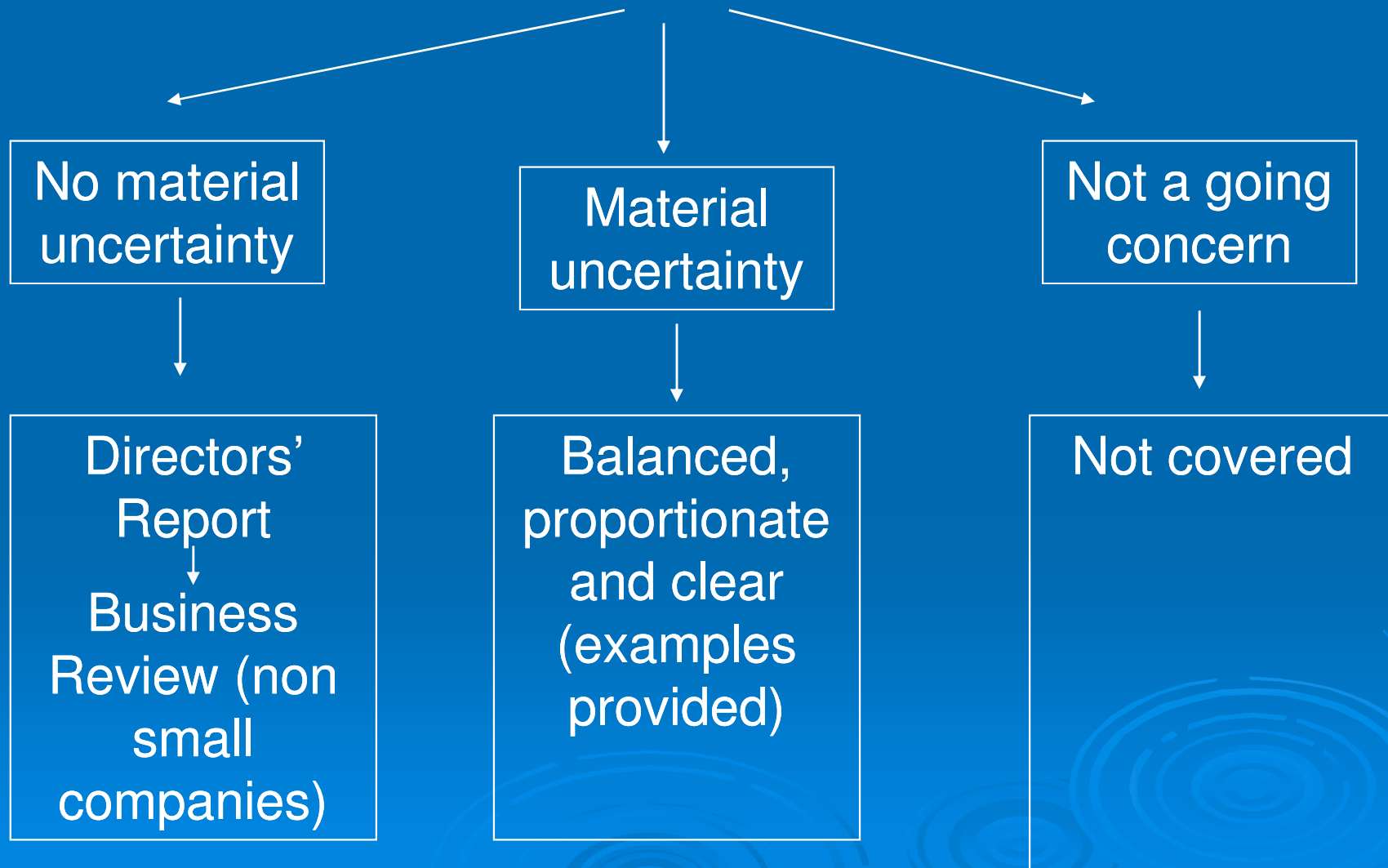
1. Assessing going concern

- Rigorous, proportionate and documented
- All companies
 - Make an assessment at date of approval of FS
 - Get the assessment approved by the Board
 - Prepare a budget, trading estimate, cash flow forecast or equivalent
 - Consider sensitising assumptions
 - Analyse borrowing facilities – including covering any shortfall

2. Review period

- At least 12 months from the date of approval of the balance sheet

3. Disclosures



Example disclosures

No material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors

Example 1 – A small company that has adopted the FRSSE and anticipates reduced sales next year

There has been a significant reduction in requests for estimates for new decorating work and the directors expect sales to reduce significantly next year. However, costs are expected to reduce accordingly and the company should be able to operate within its overdraft. The directors are not aware of any reason why the overdraft facility might be withdrawn. As a result they have adopted the going concern basis of accounting.

Example disclosures

Material uncertainty that casts significant doubt about the ability of the company to continue as a going concern has been identified by the directors

Example 2 – A small company that has adopted the FRSSE and has experienced difficulties in securing future work

The company has orders for work for the next two months. However, despite significant efforts, it has so far proved impossible to obtain additional sales orders. If new orders are not forthcoming, the directors will need to close the factory and make the employees redundant.

The directors have concluded that a material uncertainty exists that casts significant doubt upon the company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. However, given the continuing efforts to secure new orders, the directors continue to adopt the going concern basis of accounting.

Asset values

	Maximum carrying value	Relevant SSAP/FRS
Debtors		
Goodwill		
Investment property		
Investments		
Stock		

Impairment

An asset is impaired if:

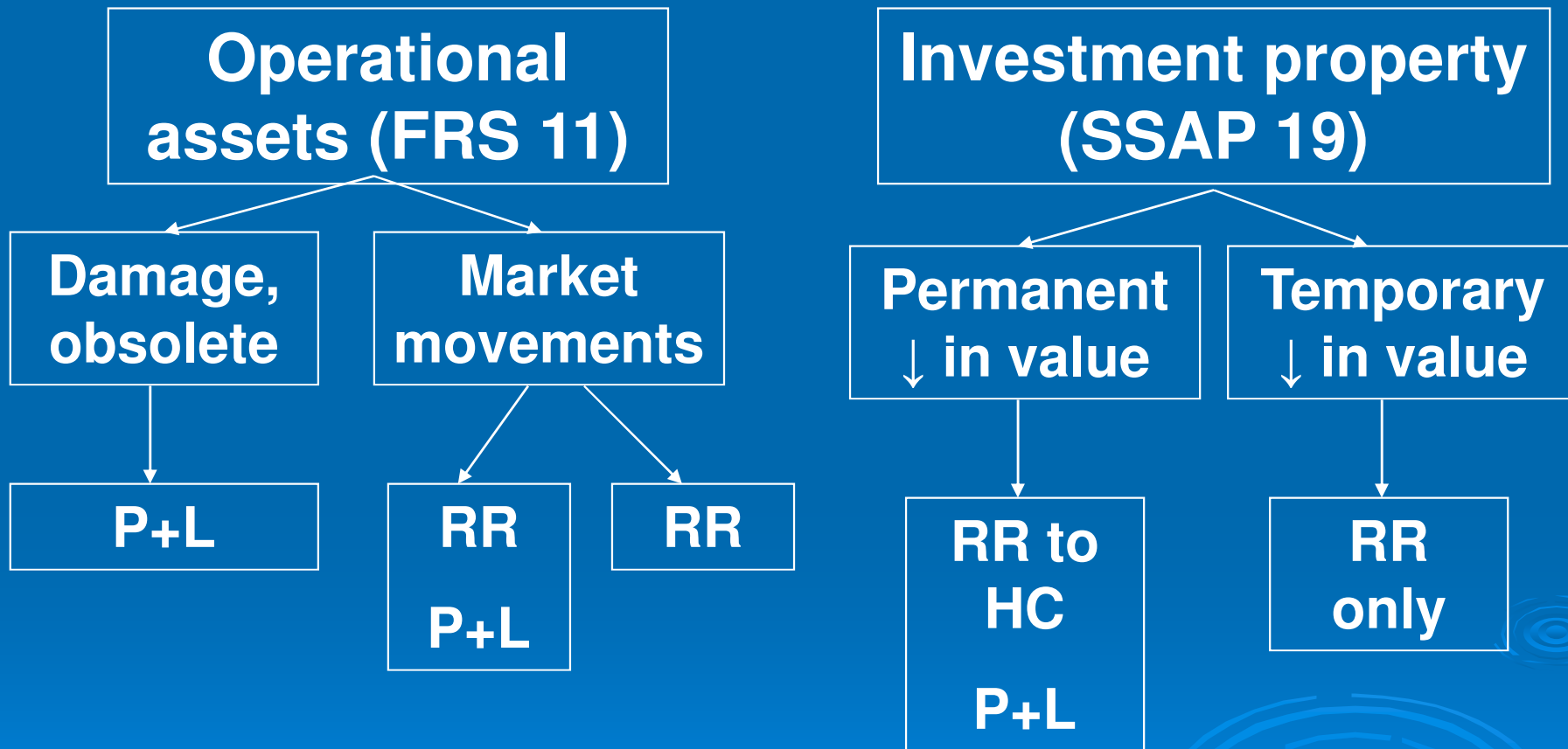
Carrying value > Recoverable amount

Higher of fair value and value in use

Sell

Keep

Treatment of diminutions



TAX SENSITIVE ACCOUNTING ISSUES



Tax-sensitive accounting issues

- Lease premiums and rent free periods
- Asset value provisions
 - Stocks, bad debts
- Provisions for liabilities
 - Onerous leases, dilapidations
- Share option schemes
- Associated companies
- Income recognition

WHAT'S GOING ON IN AUDIT?



Auditing standards – all change!

- 'Clarity' standards
- Some changes to documentation – letters of engagement, representation letters
- Additional work in some areas...

Key changes (1)

- Accounting estimates
 - Greater documentary evidence required
- Related party transactions
 - Risk-based approach
 - More work on completeness
 - Specific procedures – transactions outside the normal course of business

Key changes (2)

- Communicating with Those Charged with Governance
 - Two way communication
 - Significant deficiencies in internal control

- Group audits
 - Risk-based approach
 - Liaison with other auditors

A LOOK INTO THE FUTURE...



IASB Work Programme

**Financial
instruments**

Consolidation

**Financial
Statement
Presentation**

Leases

Provisions

Tax

**Revenue
recognition**

Debt : equity

Joint ventures

Provisions – IASB proposals

- Entity A is defending a legal claim by a customer for £1M
- Based on management's estimate there is a 40% chance that Entity A will be liable for £1M
- Based on management's estimate there is a 60% chance that Entity A will not be liable

What provision would be recognised (1) under current UK GAAP and (2) under IFRS per the IASB's proposals?

HURST TECHNICAL WORKOUT

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