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Accounting Standards & the Big Differences

(FRS102 compared to IFRS)

General: C21

The Companies Act 2006 requires UK companies to prepare their financial statements using either UK GAAP accounting standards or International Accounting Standards.

FRS102 is the most commonly used UK GAAP accounting standard so this guide will compare some of the major differences between FRS102 and International Financial Reporting Standards (IFRS).

As well as FRS102 there are a number of UK GAAP accounting standards which are less frequently used e.g. FRS 101 Reduced Disclosure Framework. This is used where the group wants to apply IFRS accounting principles for group reasons but is keen to reduce disclosure. Although, there is still a lot more disclosure required than under FRS102.

On the whole most UK companies will use FRS 102 to prepare their financial statements. It is generally more cost effective to prepare accounts using FRS 102 as the requirements are less complex and therefore the accounts take less time to prepare.

Although, if a UK company is part of a wider group that uses the International Accounting Standard, the company's directors may choose to apply IFRS so that there are no adjustments on consolidation. Furthermore, the choice of which accounting standard to use can have a large impact on an entity's balance sheet and tax position and therefore careful consideration is required before making a decision.

What are the big differences?

Intangibles

If a development cost meets the capitalisation criteria it must be capitalised under IFRS. Whereas under FRS 102 if the capitalisation criteria are met there is a choice to recognise these development costs in the profit or loss or balance sheet.

Another key difference is that under IFRS intangibles can have an indefinite life whereas under FRS102 the expected life of an intangible shouldn't exceed 10 years.

Goodwill

Under IFRS Goodwill is not amortised but it is subject to an annual impairment review and any gain on bargain purchase is recognised in the statement of profit or loss immediately.

Conversely, Goodwill under FRS 102 is amortised over the expected life of the goodwill. If this cannot be measured reliably, the goodwill life should not exceed 5 years. Any gain on bargain purchase should be initially recognised on the balance sheet and then subsequently recognised in the profit or loss when the assets that the negative goodwill arose from are recovered.

Leases

A lease must be recognised as an asset and liability where the lease length is more than 12 months under IFRS.

If FRS 102 was to be adopted, if the risks and rewards are not substantially transferred incidental to ownership, the lease costs are accrued over the length of the lease to the profit or loss.

Investment property

Under IFRS, the standard allows the company to choose between holding the investment property at depreciated cost or at fair value with changes recognised in the profit or loss.

Whereas under FRS 102, investment property must be measured at fair value if it can be reliably determined.

Borrowing costs

Where borrowing costs are directly attributable to acquiring or constructing property, under IFRS, these costs should be capitalised.

Users of FRS 102 can decide whether to capitalise or expense these borrowing costs.

Revenue

Under IFRS, if the performance creates an asset that the customer controls over time, revenue is recognised over time. If the customer does not control the asset over time, with no alternative use to the entity and there is an enforceable right to payment, revenue is recognised at a point in time.

When FRS 102 is applied, revenue for the provision of services is recognised when it is probable that an economic benefit will flow to the entity and the revenue and costs can be reliably measured.

Bundles

Users of IFRS are required to separate out different parts of a transaction and account for these separately. Whereas UK GAAP allows for a bundle to be collated and accounted for this revenue as a single stream.

Purchases

Under FRS 102, purchases should be recognised in the period they relate to e.g., if sales commission was paid to an employee this should be recognised in the profit or loss in the month the event the commission related to occurred.

The IFRS accounting standard states that purchases that are incremental costs of obtaining a contract should be recognised as an asset and then amortised on a systematic basis consistent with the transfer of goods or services to which the asset relates.

Disclosures

When using FRS102, small companies can benefit from the use of the small companies' regime. This allows a company to prepare accounts with reduced disclosures. There is no requirement to disclose transactions between group companies, a statement of profit or loss, a statement of cash flows and a statement of changes in equity.

This is not the same under IFRS reporting whereby a company has no exemptions for reduced disclosures regardless of company size.

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