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## New financial reporting framework

Currently accounts for all entities except for public listed entities are prepared under UK/Irish Generally Accepted Accounting Principles (GAAP).

On 29 October 2010, the Accounting Standards Board published its proposals for changes to the financial reporting framework in the UK and Republic of Ireland.

This will involve a movement from UK/Irish GAAP to International Financial Reporting Standards (IFRS). The Accounting Standards Board recognises that one size of accounting standard does not fit all entities and therefore a three tier system is proposed:

Tier	Nature of Entity ≈	Accounting Regime
1	Entities that have public accountability**	EU- adopted IFRS
2	Entities without public accountability**, and small publicly accountable entities that are prudentially regulated	Financial Reporting Standard for Medium – sized Entities (FRSME)
3	Small entities without public accountability**	Financial Reporting Standard for Smaller Entities (FRSSE)

≈All entities can choose to apply a higher tier

\*\* An entity has public accountability if:

- As at the reporting date, its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; OR
- As one of its primary businesses it is a deposit – taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders.

Examples of publicly accountable entities are Quoted Companies, Insurance Entities, Banks, Building Societies, Credit Unions and Pension Schemes

### Effective date

We currently expect that these proposals will be effective for accounting periods commencing on/after 1 January 2014. However this may be subject to change.

This means companies with December year ends will have to apply the new proposals in respect of

the financial year ending 31/12/2014. In real terms to comply with this, entities will need to prepare their opening balance sheet at 1 January 2013 in accordance with the new accounting framework.

### Changes

The majority of entities are likely to fall into Tier 2 of the table above, i.e. IFRS for SME's. Some of the changes that these entities will notice are as follows:

- The format and content of financial statements will change, e.g., all entities will now be required to prepare a cashflow statement.
- The entity will be prohibited from revaluing property assets.
- There will be changes to the manner in which the entity recognises government grants received.
- The entity will be prohibited from capitalising borrowing and development costs. This will impact both results and profits potentially available for distribution.
- Accounting for business combinations, including amortisation of goodwill, will change.
- There will be a fundamental change in the basis for the calculation of deferred tax.
- The recognition and measurement of financial instruments and related hedge accounting rules will be more complex.

### Benefits and costs

The main benefit in the adoption of the new framework is that financial statements will be more consistent and transparent. This should aid decision making by investors, lenders and other users.

There will also be costs, many of which will be incurred in the transition process. This will involve training and up-skilling of finance staff, and costs associated in preparing transitional balance sheets.

### How Crowleys DFK can help

- Assist in the implementation of and transition to the new financial reporting framework.
- Assist users of the financial statements (generally directors and senior management) understand changes to the accounts format and how this impacts on the reported results for the period.
- Identify the key accounting/technical differences and understand the implications that they will have on the financial statement.

If you require any further information or assistance on how this issue might affect you or your organisation please contact us.

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