KPMG

cutting through complexity

‘New GAAP’ is here: It’s time to change

The introduction of ‘New GAAP’

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The introduction of the FRC's New GAAP framework is the biggest financial reporting change for most companies in a generation. It will mean change for most entities. A number of choices are open to Irish and UK entities who currently apply the outgoing standards – the choice you take will depend on your size, complexity and structure – and it is important to think about your options carefully

Highlights

- All existing UK and Irish GAAP standards - SSAPs, FRSs and UITFs - have been withdrawn
- FRS 102 - a standard relatively similar to existing Irish and UK GAAP - will be the natural choice for the majority of entities
- Alternatively, FRS 101 - a standard that uses virtually all the same recognition and measurement rules as EU IFRS but which allows significant reduced disclosures in a number of areas - is available for use in the single entity financial statements of qualifying subsidiaries where the Group prepares its consolidated financial statements under IFRS. This will allow Groups apply a single set of policies but with more manageable disclosure requirements
- Small entities can apply an amended FRSSE which is very similar to the existing FRSSE with a small number of key amendments. However, this is a short term option as the FRSSE is expected to align with FRS102 from 1 January 2016, albeit with reduced disclosures
- All entities will be entitled to voluntarily apply EU IFRS
- Many entities will face increased complexity with regard to measurement - particularly as a result of increased use of fair value measurement for some items - with new assets or liabilities and new items of income and expense in their financial statements
- New disclosure requirements will also provide challenges
- The transition will present a number of key commercial considerations which need to be addressed and planned for, particularly in respect of multi-year commercial arrangements and tax planning considerations
- Transition is required for periods beginning on or after 1 January 2015 with restatement of comparative information
- Some key transition options are available and key choices to be made.

Managing conversion effectively

Are you concerned about how a change in reporting framework will affect your financial statements and your wider business?

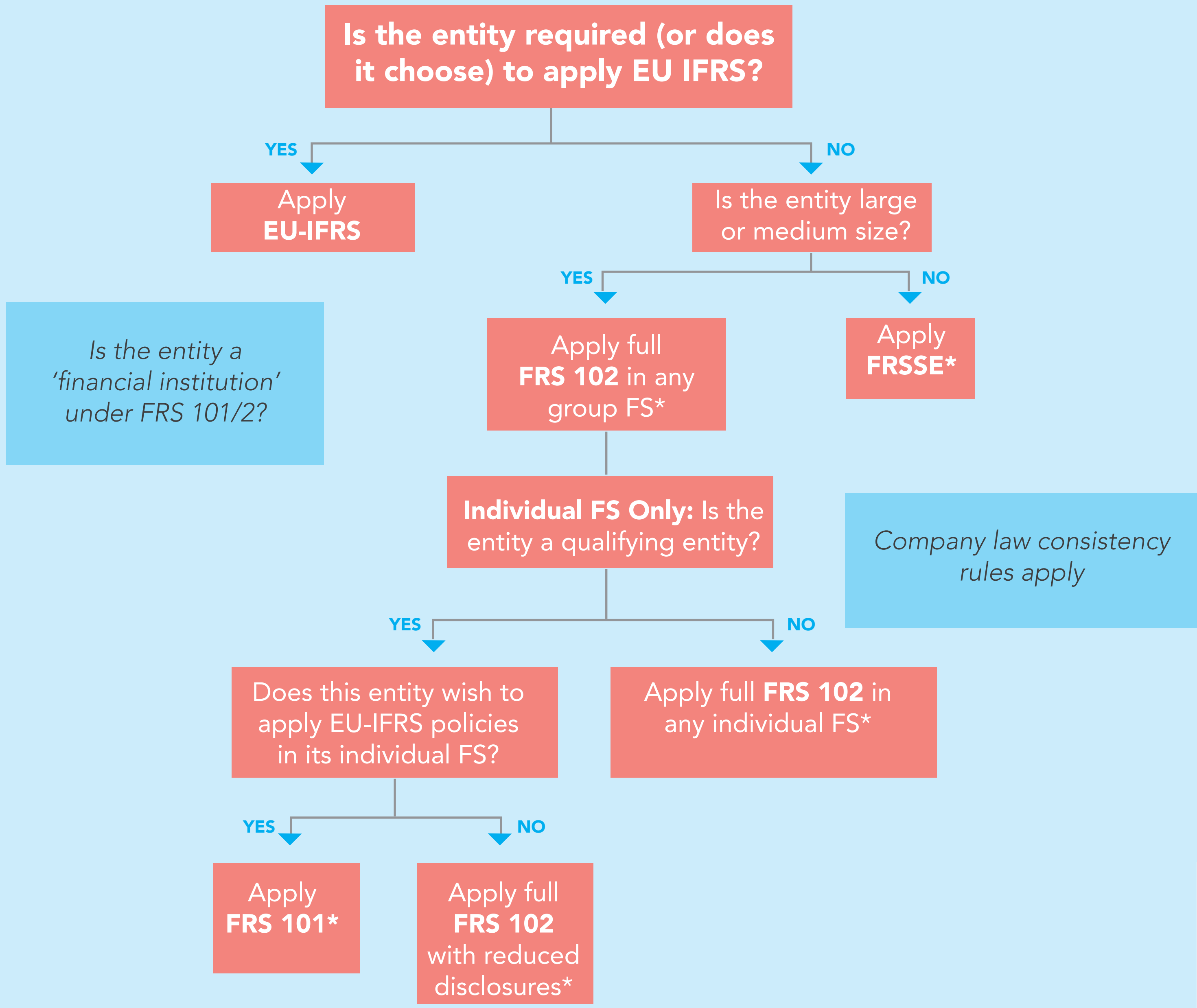
We can help you understand how the changes in standards will affect your financial statements and assist you in making the complex accounting decisions required.
Our service offering encompasses the key phases of transition, allowing you the flexibility to choose the areas you require assistance with.

1. Evaluate	■ Perform an initial analysis to determine the conversion options available to you – EU IFRS, FRS 101, FRS 102 or the FRSSE.
2. Plan	■ Establish timelines (including key milestones and deadlines) ■ Identify the resources required (internal and external) from finance and the wider business ■ Agree the project deliverables.
3. Impact analysis	■ Review your current accounting policies and practices against the new requirements of the applicable alternative GAAPs and identify where areas of difference arise and outline potential impacts in a report ■ Technical papers supporting key judgements ■ Differences may arise in respect to recognition, measurement, presentation and disclosure differences ■ Each of these may also trigger commercial impacts – make sure these are considered early.
4. Quantify	■ Perform calculations to quantify the impact of GAAP differences.
5. Convert your financial statements	■ Restate comparative financial statements (including new presentation and disclosure) ■ Transition adjustments and reconciliations ■ Prepare proforma financial statements.

On a broader level, we see transition to the new financial reporting framework as more than just an accounting exercise and can offer you a multi-disciplinary approach incorporating tax, IT and technical training expertise as required.

New GAAP – what are my options?

When migrating from current standards, you will need to consider which one of the available options will work best for you. The following decision tree may help you decide:



** Entities can 'trade up' to a higher tier financial reporting framework*

Notes

- EU IFRS – required for listed entities but all entities may elect to apply
- FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", a new standard based heavily on the IASB's "IFRS for SMEs" – all entities, other than those required by regulation to apply EU IFRS can apply. Some reduced disclosure reliefs are included within FRS 102 which apply to certain subsidiaries and parent entities ("qualifying entities")
- FRS 101 "Reduced Disclosure Framework" – a separate standard designed to allow certain subsidiaries and parent entities of Group's ("qualifying entities") who apply EU IFRS to have common policies without needing to apply all of the disclosure requirements of IFRSs
- FRSSE "The Financial Reporting Standard for Smaller Entities" – available only to small entities.

How should I evaluate my options?

Where a choice exists, a number of factors will need careful consideration:

- Stakeholder needs and expectations, including banking and funding counterparties
- Peer Group comparison requirements
- Medium or long term financing or listing considerations
- Appetite for disclosure
- Treatments applicable to your particular assets, liabilities or key transactions
- Frequency of changes to frameworks: EU IFRS likely to have more frequent changes as new and amended standards modify requirements.

What other challenges will I need to consider?

1. Commercial considerations
   - Cash tax impact – taxable profits may be increased (for example, as result of recognising fair value movements as part of reported earnings)
   - Existing tax planning strategies may need to be reassessed
   - Distributable profits and dividend policy may be affected
   - Debt agreements or facilities may be impacted, particularly with respect to covenants
   - Other agreements – leases, remuneration and bonus structures
   - Internal management reporting and business measurement metrics may need to be realigned
   - Acquisition strategies may be impacted.

2. People considerations
   - Develop and execute training plans
   - Knowledge transfer.

3. Systems, Processes and Controls
   - Identify information gaps, particularly in respect of new required disclosures or key measurement changes
   - Identify new system needs
   - Consider need for new chart of accounts
   - iXBRL tagging requirements for new accounts.

Transition Timetable (illustrative for 31 December year end)

Date of transition:
Key choices to be made

1 January 2014 — 31 December 2014 — 31 December 2015

Comparative period:
Information to be restated under new accounting policies

Current period:
Any interim and all final reporting will be made under new accounting policies

How will New GAAP implementation change my financial statements?

Depending on the nature of your operations and the choices you elect to make, adopting New GAAP will bring key changes in the requirements applicable to your financial reporting

	Key differences	Current Irish and UK GAAP	FRS 102	IFRS/FRS 101
Look and feel	Layout of financial statements	Traditional company law, P&L and balance sheet	Broadly as per current GAAP	Standard IFRS layout is significantly different
	Disclosures	Smallest volume	Marginally more than current GAAP	Significantly more than FRS 102 for full IFRS. Reduced disclosures apply under FRS 101
Potential recognition and measurement changes	Functional currency	Determination of functional currency requires limited analysis	Detailed analysis required	Detailed analysis required
	Derivatives (e.g. FX contracts, interest rate swaps)	Off balance sheet	On balance sheet at fair value	On balance sheet at fair value. Significant disclosure requirements under full IFRS
	Financial assets and liabilities	No specific standards for financial assets	Classification and measurement may differ	Classification and measurement may differ. Significant disclosure requirements under full IFRS
	Deferred tax	Not complex	Similar model to current GAAP	Different model to current GAAP
	Goodwill – amortisation period	Up to 20 years	Presumed 5 years or less	No amortisation. Annual impairment test required.
	Investment property	Fair value – FV movements in reserves (unless impairment)	Fair value if reliably measurable – FV movements in profit or loss	Cost or fair value – FV movements in profit or loss
	Borrowing cost capitalisation	Policy choice	Policy choice	Must capitalise if criteria met
	Development cost capitalisation	Policy choice	Policy choice	Must capitalise if criteria met
	Intercompany balances	Held at face value	May need to fair value if long term and below market interest rate	May need to fair value if long term and below market interest rate

Where can I get more information?

More information, including the full text of the newly issued standards, available on the FRC's website: **www.frc.org.uk**

In addition, you can visit our dedicated website at **www.kpmg.ie/newgaap** or your usual KPMG contact is available to discuss the impact of conversion on your business, the potential impacts on your company and the transition process with you.

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