AIB 2021 virtual
Accountants in Business

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Accounting update

John Selwood ACA

Session Outline

Topic issues – FRS 102 and IFRS	Reorganisation and restructuring companies, post balance sheet events, going concern assessments looks like, property valuations, coronavirus job retention scheme overclaims, accounting for the new extended loss relief and deferred tax and changing rates of tax
IFRS Update	Overview of current consultations and amendments FRC letter to the Board for the upcoming reporting season IFRS 16 rent concessions
UK GAAP Update	FRS 101 amended FRS 102 periodic review – progress report FRS 102 rent concessions
Other hot topics	Companies House reform – the biggest change since 1844 Audit reform Carbon reporting – SECR feedback from the FRC

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Restructuring, provisions and discontinued activities

Provisions for liabilities – *A liability of uncertain timing or amount*

1. The entity must have a present obligation that has arisen because of past event
2. It is more likely than not that the entity will have to transfer some economic benefit in order to settle the obligation
3. The amount of the obligation can be measured with some degree of reliability

John Selwood

Provisions for liabilities – *example*

Redundancy provisions

On 30 September 2021, the CJRS is due to finish. Sunnie Ltd operates a chain of hotels that has been severely impacted by the pandemic. Since hospitality was allowed to re-open, they have continued to suffer because staff have been ‘pinged’ by the NHS Test and Trace app meaning more than a quarter of their workforce have had to self-isolate on an almost consistent basis.

Due to increasing cash flow difficulties, management took the decision on 10 September 2021 to make 20% of its workforce redundant. It made the announcement to the staff concerned on 20 September 2021 and the payroll department has calculated the costs of terminating the staff members’ employment.

Restructuring provision

In order to provide the following need to be in place:

- detailed formal plan and
- a valid expectation in the minds of those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it

Restructure – *example*

Restructure provisions

Emery Ltd has five branches spread across the UK and the company has an accounting reference date of 30 September. Over the last two years the depots in Tyneside and Hull have been sustaining heavy losses and were closed during the height of the pandemic. Since reopening both depots have sustained month-on-month losses and the directors have taken the decision to transfer operations to its head office located in Glasgow. This decision was taken by the board on 16 September 2021.

The restructuring plan was communicated to all staff in the Tyneside and Hull depots on 17 September 2021 and staff were given redundancy notices. Both depots will close officially on 1 November 2021 and the payroll department has been able to calculate the value of the termination payments that will be paid to those staff who will be made redundant.

In addition, the depot in Hull is rented via an operating lease and the agreement is due to end on 31 October 2023. The landlord of the premises has agreed that Emery can come out of the lease on 1 November 2021 provided they pay an early termination fee of £35,000 to which the directors have agreed.

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Discontinued operations

Restructuring provision

A **component of an entity** that has been disposed of (or otherwise discontinued) and:

- represented a separate major line of business or geographical area of operations
- was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- was a subsidiary acquired exclusively with a view to resale

….**must** have been discontinued **by the reporting date**

Discontinued activity – *example*

Presenation

Weaver Ltd has a reporting date of 31 December. The company manufactures pesticides for both commercial and domestic use. It has three divisions, each of which is a cash-generating unit in its own right. One of the divisions which manufactures the brand 'ClearPest' will close during 2022 as the Government have banned the use of certain chemicals that are used in the production of that brand.

In the financial statements for the year ended 31 December 2021, the results and cash flows of the ClearPest division will be treated as continuing operations. In the financial statements for the year ended 31 December 2022, the results and cash flows of ClearPest will be treated as discontinued operations.

Discontinued activity – *from FRS 102*

	20X1			20X0		
	Continuing operations CU	Discontinued operations CU	Total CU	Continuing operations (as restated) CU	Discontinued operations (as restated) CU	Total CU
Turnover	**4,200**	**1,232**	**5,432**	3,201	1,500	4,701
Cost of sales	**(2,591)**	**(1,104)**	**(3,695)**	(2,281)	(1,430)	(3,711)
Gross profit	**1,609**	**128**	**1,737**	920	70	990
Administrative expenses	**(452)**	**(110)**	**(562)**	(418)	(120)	(538)
Other operating income	**212**	**-**	**212**	198	-	198
Operating profit	**1,369**	**18**	**1,387**	700	(50)	650
Profit on disposal of operations	**-**	**301**	**301**	-	-	-
Interest receivable and similar income	**14**	**-**	**14**	16	-	16
Interest payable and similar expenses	**(208)**	**-**	**(208)**	(208)	-	(208)
Profit before tax	**1,175**	**319**	**1,494**	508	(50)	458
Tax on profit or loss	**(390)**	**(4)**	**(394)**	(261)	3	(258)
Profit/(loss) after tax and profit/(loss) for the financial year	**785**	**315**	**1,100**	247	(47)	200
Other comprehensive income Actuarial loss on defined benefit pension plans			**(108)**			(68)
Deferred tax movement relating to actuarial losses			**28**			18
Total comprehensive income for the year			**1,020**			150

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Going concern assessment

Key features – management are responsible

At least 12 months from balance sheet sign off

Foreseeable future!

Will vary from entity to entity and year to year

Cashflow forecasts

Scenario planning

Stress testing

Key issues

Alternative basis

Going concern basis

- The term “going concern” applies to any entity unless its management intends to liquidate the entity or to cease trading, or has no realistic alternative to liquidation or cessation of operations

Disclose

Material uncertainty casting significant doubt on going concern

Audit report – example with no material uncertainty

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Audit report – example with material uncertainty

Material Uncertainty Related to Going Concern

We draw your attention to note 2a which indicates that the effects of the Covid-19 pandemic has had a detrimental impact on the company's operations and cash flow. As stated in note 2a, these events or conditions, along with other matters as set forth in note 2a indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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Property valuations

Property valuations

Property, Plant and Equipment

- Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date

Investment property

- Revaluation every year

Even in a volatile market!

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Grant overclaims

Post balance sheet events

Adjusting events

- …is an event where the conditions existed at the year end but which is evident after the year end

Non-adjusting events

- ….their conditions did not exist at the balance sheet date

Claimed in error

Decision to repay voluntarily

CJRS repayment– example

Raja & Co furloughed 15 members of staff from the beginning of the CJRS scheme to July 2020, claiming £90,000 in total. Despite everything that happened, the 31 March 2021 financial statement show very strong profits and management decide, in October 2021, that they should repay all CJRS amounts claimed.

Should this be recognised in the 31 March 2021 financial statements?

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Accounting for loss carryback

Extended loss carry back

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HR • Tax • H&S • Audit & Accounting

90-160 TRADING LOSS CARRY-BACK AGAINST PRIOR YEAR'S TOTAL TAXABLE PROFITS

90-160 Carry back of trading loss	90-170 Example – Carry back of trading losses	90-190 Temporary extended loss carry back regime
90-200 Example – Carry back of trading losses	90-210 Interaction with other offsets and group relief	90-220 Example – Carry back of trading loss under CTA 2010, s. 37(3) and interaction with group relief
90-240 Time limits	90-300 Interest on unpaid tax	90-320 Tax-based penalties
90-340 Interest on overpaid tax (and repayment supplement)	90-360 Anti-avoidance – losses relieved against total profits	

Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) taxation authorities, using the rates/laws that have been **enacted or substantively enacted** by the balance sheet date

July 2021

Loss relief – example

Before finalising its 31 March 2021 financial statements, Kroop Ltd has identified that it has tax losses of £800,000 that it can carry back for the last three years and claim £152,000.

Should a current tas asset be recognised in the 31 March 2021 financial statements?

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Deferred tax – changing Corporation Tax rates

Deferred tax – example

Ranger Ltd is preparing its financial statements for the year ended 31 March 2021. The finance director has amended the 31 March 2021 financial statements so that deferred tax represents 25% of all timing differences on the grounds that the rate of corporation tax was changed in the Budget.

Is this correct?

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IFRS Update

EU Exit amendments

In December 2020, the Financial Reporting Council (FRC) issued ***Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union***

PC 1 Jan 2021

Dani Ltd prepares financial statements under FRS 101 and has an accounting reference date of 30 June.

The financial statements for the year ending 30 June 2021 will be prepared using EU-adopted IFRS as this financial year starts on 1 July 2020.

The financial statements for the year ending 30 June 2022 will be prepared using UK-adopted IFRS.

UK endorsement board

UKEB UK Endorsement Board

UK-A

Home | About Us | UKEB Work Plan | Endorsement Projects | Influencing Projects

Welcome to the UK Endorsement Board

Our purpose

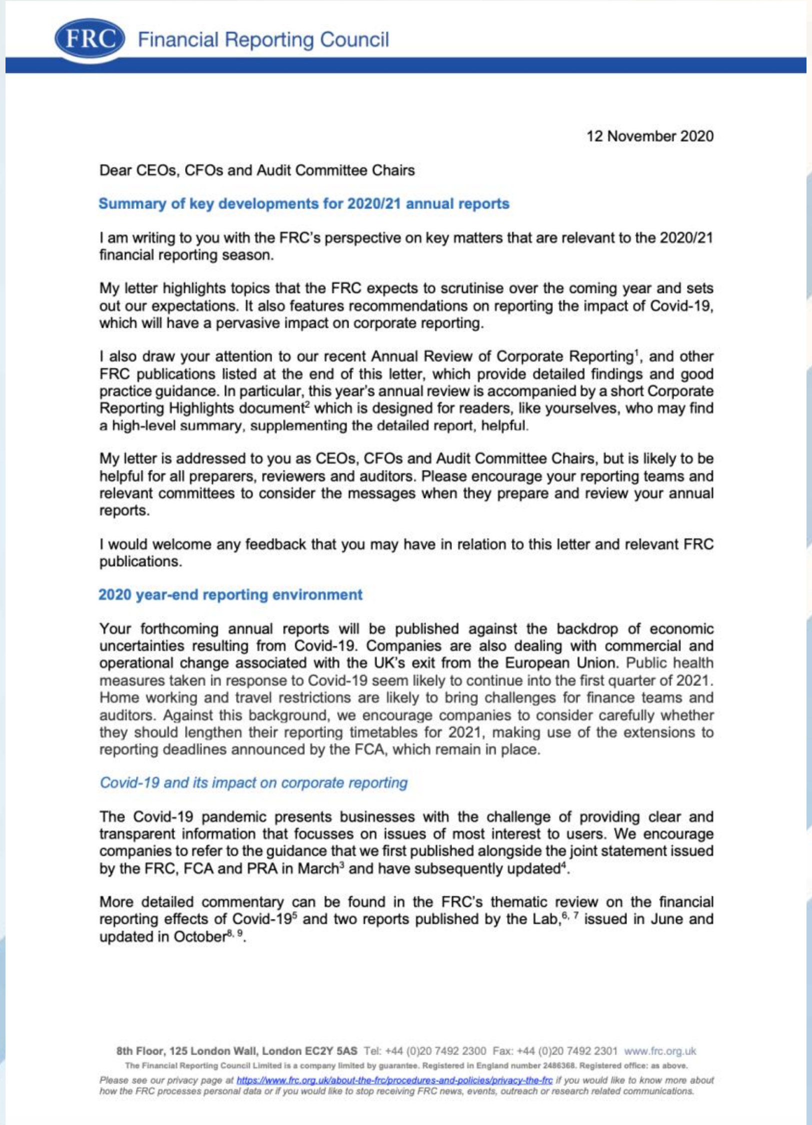
The UKEB will influence, endorse and adopt new or amended international accounting standards* issued by the International Accounting Standards Board (IASB) for use by UK companies.

The UKEB will consult publicly with stakeholders that have an interest in financial reporting in the UK so that it can develop and represent evidence-based UK views with the aim of acting as the UK voice on IFRS financial reporting

FRC end of year letter

Contents of 2021/22 letter?

- COVID issues
- Alternative performance measures
- Narrative reporting
- Impairment
- Climate reporting



FRC Financial Reporting Council

12 November 2020

Dear CEOs, CFOs and Audit Committee Chairs

Summary of key developments for 2020/21 annual reports

I am writing to you with the FRC's perspective on key matters that are relevant to the 2020/21 financial reporting season.

My letter highlights topics that the FRC expects to scrutinise over the coming year and sets out our expectations. It also features recommendations on reporting the impact of Covid-19, which will have a pervasive impact on corporate reporting.

I also draw your attention to our recent Annual Review of Corporate Reporting[1], and other FRC publications listed at the end of this letter, which provide detailed findings and good practice guidance. In particular, this year's annual review is accompanied by a short Corporate Reporting Highlights document[2] which is designed for readers, like yourselves, who may find a high-level summary, supplementing the detailed report, helpful.

My letter is addressed to you as CEOs, CFOs and Audit Committee Chairs, but is likely to be helpful for all preparers, reviewers and auditors. Please encourage your reporting teams and relevant committees to consider the messages when they prepare and review your annual reports.

I would welcome any feedback that you may have in relation to this letter and relevant FRC publications.

2020 year-end reporting environment

Your forthcoming annual reports will be published against the backdrop of economic uncertainties resulting from Covid-19. Companies are also dealing with commercial and operational change associated with the UK's exit from the European Union. Public health measures taken in response to Covid-19 seem likely to continue into the first quarter of 2021. Home working and travel restrictions are likely to bring challenges for finance teams and auditors. Against this background, we encourage companies to consider carefully whether they should lengthen their reporting timetables for 2021, making use of the extensions to reporting deadlines announced by the FCA, which remain in place.

Covid-19 and its impact on corporate reporting

The Covid-19 pandemic presents businesses with the challenge of providing clear and transparent information that focusses on issues of most interest to users. We encourage companies to refer to the guidance that we first published alongside the joint statement issued by the FRC, FCA and PRA in March[3] and have subsequently updated[4].

More detailed commentary can be found in the FRC's thematic review on the financial reporting effects of Covid-19[5] and two reports published by the Lab,[6, 7] issued in June and updated in October[8, 9].

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IBOR reform

Inter Bank Offer Rate → Risk Free Rate

IBOR reform – ignoring hedge accounting

Inter Bank Offer Rate

Risk Free Rate

- Different rate!

IBOR based Effective Interest rate

Risk Free Rate

- Cashflow adjustems to P&L
- Phase 2 relief to recalculate EIR (if as a result of reform)

IBOR reform – with hedge accounting

Inter Bank Offer Rate

→

Risk Free Rate

- Avoiding the discontinuance of hedge accounting

IBOR reform

Disclosures

- A description of how the entity is managing its transition to alternative benchmark rates
- Quantitative information about financial instruments yet to transition to an alternative benchmark rate

IFRS 16 Rent concessions

COVID19 - similar to concession in FRS 102

Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

IFRS 16 Rent concessions

Recognised over time

- A lessee has a lease liability for a store that requires monthly lease payments of £100,000. As a result of COVID-19, the government has forced all non-essential stores to close until it decides that it is safe to reopen. On 31 March 2020, the lessor forgives the lease payments for April, May and June 2020, on condition that the store remains closed under government restrictions and there is genuine uncertainty about the timing of the reopening. The lessee would recognise a credit of £100,000 in each month of April, May and June 2020, and a corresponding debit to the lease liability in each month, because of the condition that the store remains closed under government restrictions.

IFRS 16 Rent concessions

Recognised at a point in time

- In contrast, if the lessee was forgiven the lease payments at 31 March 2020 for payments due in April, May and June 2020 without a condition attached to the forgiveness (that is, irrespective of whether the store is allowed to reopen by the government in those months), the lessee should recognise a gain for the portion of the lease liability that is forgiven (that is, for the present value of £300,000) on 31 March 2020.

What's next?

Effective from 2022

- Fees in the 10% test for derecognition of financial liabilities
- Onerous contracts - cost of fulfilling a contract
- PPE - proceeds before intended use
- Subsidiary as a first-time adopter
- Taxation in FV measurements (IAS 41)

Effective from 2023

- Deferred tax on leases / decommissioning obligations
- Narrow scope to IAS 1, PS 2 and IAS 8
- Classification of liabilities as current / non-current
- IFRS 17 Insurance Contracts

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UK GAAP Update

FRS 102 Next periodic review

Triannual review	Periodic review
PC 1 January 2019	PC 1 January 2024

FRS 102 Next periodic review

Consultation – 31 October

constructive feedback is required so if you do feel strongly about a particular issue that may be causing difficulties or interpretational issues, then the response should highlight the issue and explain *why* it is causing a problem. Also, don't be reluctant to offer any potential advice in terms of a workable solution. Remember, if the FRC are not made aware of any problems then they will assume that everything is fine.

Amendment to FRS 102 – rent concession extended to 30 June 2022

4 Paragraphs 20.15C to 20.15D are inserted as follows:

20.15C A lessee shall recognise any change in lease payments arising from rent concessions that meet the criteria in paragraph 20.15D on a systematic basis over the periods that the change in lease payments is intended to compensate.

20.15D An entity shall apply the requirements in paragraphs 20.15C and 20.25B to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no significant change to other terms and conditions of the lease.

5 Paragraph 20.16 is amended as follows:

* 20.16 A lessee shall make the following disclosures for operating leases:

- * (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
  - (i) not later than one year;
  - (ii) later than one year and not later than five years; and
  - (iii) later than five years;~~ and~~
- * (b) lease payments recognised as an expense~~.~~; and
- (c) ~~[deleted]~~the amount of the change in lease payments recognised in **profit or loss** in accordance with paragraph 20.15C.

6 In paragraph 20.19 the term ‘profit or loss’ is no longer shown in bold type.

FRS 102 Next periodic review

IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	IFRS 16 Leases
• This IFRS uses an ‘expected credit loss model’ rather than the ‘incurred credit loss model’ which UK GAAP uses. This will require a more forward-looking approach and it can involve some complex calculations.	• This IFRS uses a five-step model approach to revenue recognition. It also contains requirements for variable consideration and more emphasis on performance obligations as well as requiring far more extensive disclosure requirements.	• Probably the most controversial of them all is IFRS 16. This IFRS does not distinguish between a finance lease and an operating lease for lessees meaning the vast majority of leases are recognised on the balance sheet of lessees (with some very limited exceptions).

FRS 101 Updated

PC 1 January 2021

IAS 16

IAS 1

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Other hot topics

Companies House – biggest change since 1844!

Private Co. 6m
Public Co. 3m

1. Improving the quality and value of financial information on the UK companies register
2. Powers of the registrar
3. Implementing the ban on corporate directors

Improving the quality and value of financial information

Highlights!

- Mandated digital filing - tagged
- ‘file once with government’
- Shorter filing deadlines – Plc 3m, Ltd 6m
- Exemption eligibility statements – with t/o, BS & ee no’s disclosed
- Review extent of filing exemptions for small and micro companies – less choice/more disclosure

New powers at Companies House

Companies House

Proposals

- To combat economic crime and make the register more useful
- Power to query information
- Removal of false information from the register
- Register of directors

Streamlined Energy and Carbon Reporting (SECR)

PC 1 April 2019

LARGE companies, LLPs and charities:

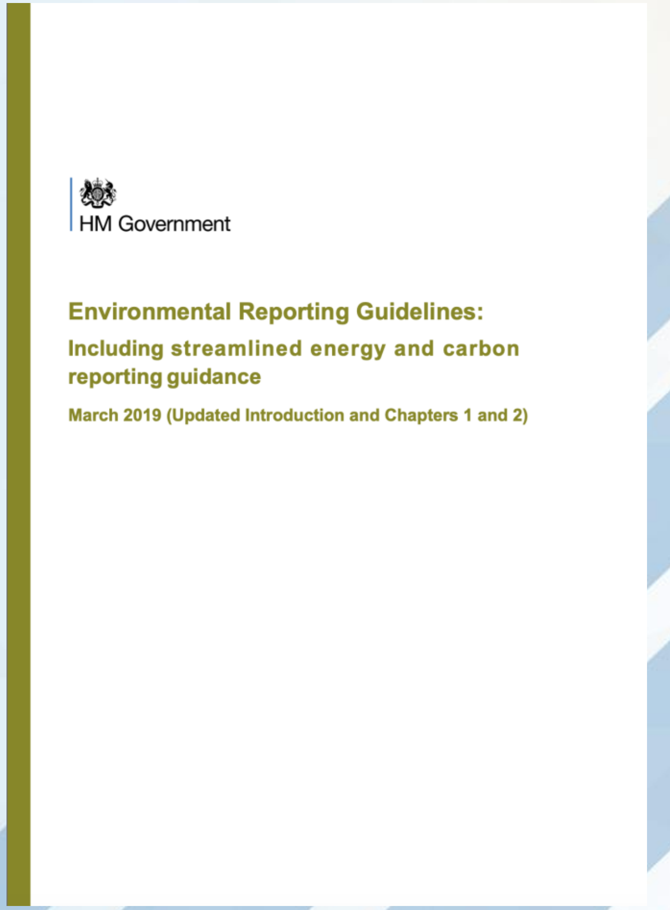
(2 out of 3)

- Gross annual income of more than £36 million
- Gross (total) assets of more than £18 million
- More than 250 employees

SECR – Government guidance

PC 1 April 2019

Use of reporting templates on pages 54 to 57 ‘strongly encouraged’


HM Government

Environmental Reporting Guidelines:

Including streamlined energy and carbon reporting guidance

March 2019 (Updated Introduction and Chapters 1 and 2)

All change for audit

Kingman review of FRC

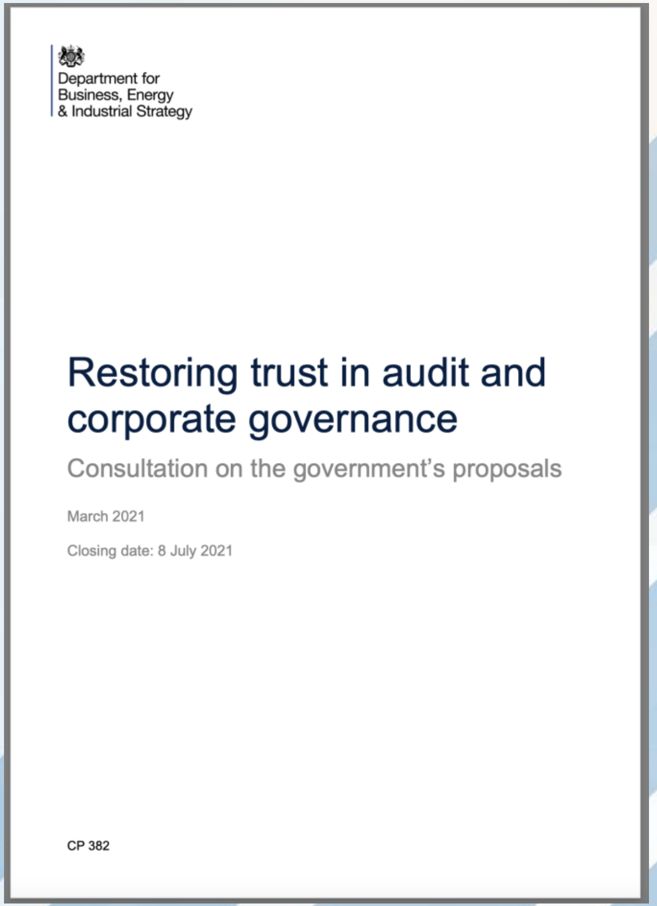
Competition and Markets Authority

Brydon review

All change for audit – white paper

Keys proposals – mostly aimed at PIEs

- More accountability for directors – internal controls – capital maintenance - resilience
- New regulator – ARGA
- New 'Corporate audit' profession
- Operational separation of largest auditors
- Shared audit by challenger firms for FTSE 350 audits


Department for
Business, Energy
& Industrial Strategy

Restoring trust in audit and corporate governance

Consultation on the government's proposals

March 2021

Closing date: 8 July 2021

CP 382

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Thank you