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ACCA Paper SBR
UK vs IFRS differences

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1. UK Syllabus

The SBR syllabus for the UK variant paper replaces section C.10 *Reporting requirements of small and medium-sized entities (SMEs)* in the international variant with the following:

(a) Discuss the financial reporting requirements for UK and Republic of Ireland entities (UK GAAP) and their interaction with the Companies Act requirements.

(b) Discuss the reasons why an entity might choose to adopt UK GAAP.

(c) Discuss the scope and basis of preparation of financial statements under UK GAAP.

(d) Discuss the concepts and pervasive principles set out by UK GAAP

(e) Discuss and apply the principal differences between UK GAAP and IFRS.

2. Background

UK GAAP previously consisted of FRSs and SSAPs, which were the equivalent to IFRSs and IASs. UK GAAP now consists of six standards that have been published by the Financial Reporting Council (FRC):

- FRS 100 Application of Financial Reporting Requirements
- FRS 101 Reduced Disclosure Framework
- FRS 102 The Financial Reporting Standards applicable in the UK and Republic of Ireland
- FRS 103 Insurance Contracts
- FRS 104 Interim Financial Reporting
- FRS 105 The Financial Reporting Standards applicable to the Micro-entities regime

FRS 100 provides direction on which standard and entity should be applying. FRS 101 applies to individual entities that prepare accounts under IFRS, in order to facilitate consolidation, that allows for reduced disclosure in the individual entity accounts.

FRS102 is based upon the IFRSs for SMEs and grouped into 34 separate chapters each one dealing with a particular accounting area and is used by UK unlisted groups (listed groups use full IFRS) and listed and unlisted individual entities.

FRS 105 cannot be applied by subsidiaries that are fully consolidated in group accounts or parent companies that prepare group accounts.

3. Key differences

The key differences between UK GAAP (FRS 102) and IFRS are summarised below:

IASB Conceptual Framework / Concepts and principles

International rules allow measurement using four bases (historic cost, present value, replacement cost and fair value), whilst FRS102 allows only two measurement bases (historic cost and fair value).

FRS102 separately identifies materiality, substance over form and prudence as qualitative characteristics, whereas they aren't in the IASB *Conceptual Framework*.

Recognition criteria are based on the probability and reliable measurement criteria only.

Financial statements presentation

FRS102 follows UK company law (Companies Act), but allows an option to use the format from IAS 1.

Inventories

Differences are that additional guidance is included on what is included within production overheads, and impairment losses can be reversed.

Cash flow statements

Minimal differences, with the headings being similar. FRS 102 allows some exemptions from preparing the cash flow statement

Accounting Policies, Estimates and Errors

IAS 8 states that a change in measurement from fair value to cost where there is no reliable measurement of fair value is a change in accounting policy.

Changes in accounting estimates result from changes to the current status of the asset/liability and its expected future benefits. The changes rise from new information or developments.

Events after the end of the Reporting Period

IFRS for SMEs discloses proposed dividends and it is recognised when declared. FRS102 allows dividends declared after the reporting date to be presented as separate component of retained earnings.

Property, plant and equipment

FRS102 reviews changes in residual value and useful lives when indicators of change are present. IFRS for SMEs requires annual reviews of the residual value and useful lives at the end of each reporting period.

Employee benefits

IFRS for SMEs and FRS 102 are very similar

Government grants

IFRS uses accrual model but FRS 102 gives a policy choice on the accruals and performance model, whereas IFRS for SMEs allows only the performance model.

FRS102 does not give guidance on the repayment of the grant, whereas IFRS for SMEs specifies that repayment goes to accrued income first and then any additional through profit or loss.

Borrowing costs

IFRS for SMEs must capitalise but FRS 102 allows an accounting policy choice with regards to capitalising or expensing the borrowing costs.

Related Party Disclosures

Transactions between the parent and a wholly owned subsidiary are exempt from disclosure under FRS102. Key management personnel disclosure is exempt for certain categories and type of benefit.

Income taxes

No significant differences in the treatment of current tax.

FRS 102 adopts a slightly different approach using a timing differences vs temporary differences approach. Timing differences are measured by comparing the PBT to PCTCT, as opposed to carrying value versus tax base under IFRS. The resulting deferred tax is very often the same.

FRS102 uses the concept of 'permanent difference', which is not specifically addressed in IFRS.

Foreign Currency Translation

A foreign currency translation reserve is not used in FRS102 and the gains/losses are not recycled.

Group Accounts (exclusion of subsidiary)

A subsidiary should be excluded from consolidation where:

(a) Severe long-term restrictions substantially hinder the exercise of the rights of the parent over the assets or management of the subsidiary; or

(b) The interest in the subsidiary is held exclusively with a view to subsequent resale; and the subsidiary has not previously been consolidated in the consolidated financial statements prepared in accordance with FRS 102.

NOTE: The Companies Act allows the exclusion of a subsidiary if consolidated financial statements cannot be obtained without disproportionate expense or undue delay.

Investments in Associates

Goodwill is recognised on acquisition of an associate/joint venture under FRS102, which is then amortised.

Impairment of assets

IAS 36 provides more detailed guidance than FRS102, and if there is no impairment indicator it is not necessary to estimate the recoverable amount.

Intangibles

Capitalisation of development costs is an accounting policy choice.

Intangibles are amortised over their useful life, and if an estimate cannot be made then the useful life is 10 years, whereas IFRS has indefinite life intangibles.

Investment property

Fair value through profit or loss for both IFRS and UK GAAP, if it is too costly to measure fair value then under FRS 102 it is carried at cost in PPE.

Share-based payments

FRS102 does not always apply the option pricing model, with the fair value measured using a three-tier measurement hierarchy. Choice of settlement is treated differently.

Goodwill

Transaction costs are capitalised under FRS102 but are expenses under IFRS for SMEs.

Contingent consideration is included within the cost of the investment under FRS102 if it is probable and can be measured reliably. It is recognised at fair value under IFRS for SMEs.

FRS102 uses the proportionate share method for calculating goodwill, whereas IFRS for SMEs uses both the fair value method and the proportionate share method.

Goodwill is amortised over its useful life, which if unable to be determined is taken as not exceeding ten years.

There is less detail on fair value measurement in FRS102 compared with IFRS for SMEs.

Discontinued operations and assets held for sale

FRS 102 does not account for assets held for sale, with the decision to sell being classified as an impairment indicator.

FRS102 shows the results of discontinued operations in a separate column in the income statement as opposed to in a single line item as under IFRS 5.

Financial instruments

FRS102 splits the rules on financial instruments into basic and other financial instruments, with basic being measured at amortised cost and other at fair value through profit or loss. There is no FVTOCI measurement basis.

FRS102 uses an incurred loss model compared to the expected loss model under IFRS 9, which results in earlier recognition of impairments under international rules.

There are different rules for hedge accounting under FRS102 but these are not examinable in SBR.

Revenue

There is no 5-step approach used in FRS 102.

NOTE: High level principles may be examined in a narrative question but detailed transactions will not be examined.

Leases

FRS102 follows the old rules of IAS 17 in that in the lessees books the lease is categorised as either a finance lease or an operating lease.

NOTE: High level principles may be examined in a narrative question but detailed transactions will not be examined.

Associates/Joint ventures

Classified differently whereby the equity method is not allowed for associates/joint ventures in individual financial statements.

4. Questions

1. Which of the following measurement bases are allowed by FRS102?
2. Which of the following measurement bases are not allowed by FRS102?
3. Where does FRS102 allow accounting policy choices whereas IFRS does not?
4. Explain the accounting treatment of goodwill under IFRS 3 Business Combinations and how it is different under FRS102.

5. Solutions

1. Historic cost and fair value

2. Current cost and present value

3. Accounting policy choices are allowed for both borrowing cost and development costs. Under FRS102 they can either be capitalised or expensed.

4. Goodwill is capitalised as an intangible non-current asset under both IFRS and UK GAAP, however its initial measurement and subsequent treatment is different

IFRS 3 allows the goodwill to be calculated using both the proportionate method and the fair value method. The proportionate share method measures the parent's goodwill only, whilst the fair value method results in a higher value as it includes the non-controlling interest goodwill also.

Negative goodwill is recognised immediately through profit or loss.

Goodwill is then subject to annual impairment reviews under IFRS.

FRS102 does not allow the fair value method for goodwill, whilst it is also amortised over its useful life. If this cannot be estimated, then it should not exceed ten years. Negative goodwill is recognised against positive goodwill on the statement of financial position, once its accuracy has been validated through remeasurement and reassessment of the elements of the calculation (cost and net assets).

6. Appendix 1: Comparison of UK and International syllabus

C. Reporting the financial performance of a range of entities

10. Reporting requirements of small entities	10. Reporting requirement of small and medium- sized entities (SMEs)
UK syllabus	IFRS syllabus
a) Discuss the financial reporting requirements for UK and Republic of Ireland entities (UK GAAP) and their interaction with the Companies Act requirements. b) Discuss the reasons why an entity might choose to adopt UK GAAP. c) Discuss the scope and basis of preparation of financial statements under UK GAAP. d) Discuss the concepts and pervasive principles set out by UK GAAP e) Discuss and apply the principal differences between UK GAAP and IFRS.	a) Discuss the accounting treatments not allowable under the IFRS for SMEs b) Discuss and apply the simplifications introduced by IFRS for SMEs