



Mind the GAAP – Keeping up with changes to the UK accounting regime

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Context

- A new regime
- “The FRS” issued 14 March 2013
- New SORP alongside the FRS



Timetable

- Accounting periods beginning on / after 1 January 2015
- Year End 31 March 2016 for most RPs
- Transition date 1 April 2014
- SORP – same timescale



Statement of Recommended Practice

- Invitation to comment issued 3 April 2013
- Closing date 17 May 2013
- Online completion
- Focus on key issues
- Will also be consultation on draft SORP



The FRS

- Previously called the FRSME
- A “one stop” shop FRS
- No need to use full IFRS
- Many contentious issues for sector resolved in second consultation
- Consultation 2009 – 2012
- Published as FRS 102 March 2013



The Issues – FRS 102

- Financial instruments and hedging
- Property plant and equipment (PPE)
- Investment property
- Grants
- Pensions



The Issues – the SORP

- Housing Properties
- Employee Benefits (including pensions)
- Grant
- Stock swaps
- Agreements to improve existing properties
- Financial instruments
- Narrative reporting



Financial Instruments and hedges

- Accounting policy choice between using full standard (with disclosures of FRS 102), and FRS 102
- IFRS 9, timing uncertain
- Anything other than straight forward financial instruments
- Basic vs “other”
- Strict rules to prove hedging is effective
- Requires correct documentation



Main impact on sector

- Valuation of loans and derivatives with “mark to market” exposure
- Any embedded derivatives – swaps, complex contracts
- Impairment of financial assets (no more general arrears provisions)
- Onerous disclosures



Financial Instruments and hedges

- More volatility in I&E account
- Impact on loan covenants?
- Review arrangements asap!



Financial Instruments and hedges – the SORP

- Research on types of instruments in RP sector
- Technical guidance and examples as part of the SORP
- No repetition of FRS 102 – signposting
- Likely to assume FRS 102 accounting policy choice



Housing properties - classification

- Property Plant and Equipment (PPE)
- Investment properties

16.3A of FRS 102

Property held primarily for the provision of social benefits, e.g. social housing held by a public benefit entity, **shall not be** classified as investment property and shall be accounted for as property, plant and equipment in accordance with Section 17.



PPE vs Investment property?

- Is property held for social benefit?

YES => PPE

NO => Investment property

Consider: market rent
 intermediate rent
 shared ownership
 affordable rent
 key worker
 student accommodation
 etc... ..



PPE – cost, valuation, impairment

- Cost or value, as per current SORP
- Impairment, no significant change
- Valuation – is EUVSH still the best model?



Investment property

- Hold at value
- Movement through I&E account
- No revaluation reserve
- More volatility, again
- Hold at cost if “undue cost or effort” in valuing



Housing properties – the SORP

- Guidance on PPE vs investment - “intention” very important
- Signpost to FRS 102 for non-sector specific issues
- Unlikely to include a definitive list



Grants

- Choice of two methods in FRS 102:
 - Performance model
 - Accruals model
- Current treatment **NOT** allowed



Performance model

- No performance conditions:
 - ⇒ recognise income when receivable
- With performance conditions:
 - ⇒ recognise income only when conditions met
- SHG – when are conditions met?
 - ⇒ when claimed or never?



Accruals model

- No deduction of grant from asset
- Classify as capital or revenue
- Capital grants => recognise in income over life of asset (structure not land)
- Revenue grants => recognise in income as costs incurred
- Deferred grant is held as a liability, not offsetting the asset
- Complications when accounting for property at valuation



Grant accounting – the SORP

- Is complicated!
- Accruals model closer to current treatment
- Does not “fit” for valuation model
- Choice of method in SORP?
- Or,
cost => accruals method
value => performance method
- May lose consistency
- Grant not “allocated” to land, or components?



Stock swaps

- Current SORP silent
- Becoming more common, guidance needed
- Differing treatment at the moment
- Fair value of purchase price = EUVSH?
- Treatment of grant – to recognise or not?
- SORP will provide technical examples
- Does the grant liability follow the asset, and should this be recognised?



Pensions

- LGPS – substantially as now
- SHPS – multi employer exemption still available
- BUT required to account for any agreement to recover past service deficit



Narrative reporting - SORP

- OFR > 5,000 limit currently
- Lower limit in new SORP?
- Less prescriptive, so can be appropriate for smaller RPs



Prior Period Adjustments (PPA)

- The FRS requires a PPA for:
 - change in accounting policy
 - **material** error in prior years
- No longer needs to be **fundamental** – likely to see more PPAs



Conclusion

- Need to start planning
- Will any of the above affect loan covenants?
- Understand financial instruments in place
- 2016 not far away. Comparative period starts 1.4.14!

