



## Jonathan Mann's UK GAAP update November 2012

### New UK accounting standards are one step closer

**If you currently prepare your company's annual statutory accounts using full UK accounting standards, the rules will be changing. Read on.**

Over the last two years, UK accounting standard setters have been working hard to update the accounting standards used by most UK companies. **The aim is to converge the current UK accounting standards (UK GAAP) that are used by most private UK companies with the International Accounting Standards (IFRS) used increasingly across the EU and rest of the world.**

In reality this convergence process is not as fundamental as it may seem. The IFRS framework was originally based significantly on UK GAAP. However, in recent years IFRS has become more complex after its use became mandatory for most publicly-quoted companies in the EU and as it became adopted more widely around the rest of the world. It has now evolved to deal with more complex situations. Recent changes to UK GAAP have been consistent with IFRS rules to aid the proposed convergence.

A key aim of the new UK accounting framework is to establish standards consistent with the IFRS framework, but which are simplified for use by for smaller private companies. In the UK this new framework has been termed "FRSME" (Financial Reporting for Small and Medium Sized Entities").

**We expect the UK to end up with three principal frameworks to apply to companies, as follows:**

- **Full IFRS** : the complex international accounting standards used by public companies in their group accounts,
- **FRSME** : the proposed new UK accounting standards for small and medium sized companies,
- **FRSSE** : the existing UK regime for the smallest companies.

**In summary, all companies will be able to use the new FRSME to prepare their accounts, except publicly-quoted companies preparing their group accounts. Some companies will have alternatives available.**

Here are the details:

1. **Consolidated group accounts of publicly-quoted companies.** There is **no change**. These companies are currently required to prepare their consolidated annual group accounts under full international accounting standards (**IFRS**) in line with EU rules. They will continue to apply the existing IFRS rules.

2. **Parent companies and subsidiary companies that are part of a publicly-quoted group.** For publicly-quoted groups, many individual UK parent and subsidiary companies within the group will have the **option to use full IFRS principles but with a reduced level of disclosures** (provided the excluded information has already been disclosed in the group accounts). They will also have the **option of using the new IFRS-based "FRSME"**.
3. **Smallest UK companies.** These smallest companies currently have the option to prepare their accounts under a very simplified UK **"FRSSE"** accounting standard. (FRSSE stands for "Financial Reporting Standards for Small Entities"). Going forward **they will continue to have the option to use this FRSSE standard, or, should they wish, they can adopt the new IFRS-based "FRSME"**. Typically these companies will have turnover of less than £6.5million and/or gross assets of less than £3.25million.
4. **All other UK companies.** All other companies will need to **adopt the new "FRSME"**. This will be set out in a new UK accounting standard "FRS102", shortly to be issued. There will be a few exceptions, including specialist sectors which currently have their own accounting rules (e.g. charities, insurance companies).

Plenty of time is available to cope with the changes as the **expected mandatory start date is not until 2015**. However, the need to show comparative 2014 figures in annual accounts for 2015 means that some companies will need to calculate the impact of the changes from 1 January 2014.

More details of specific changes will follow once they have been published in their final form.

**For more information and advice on any of the above, contact Jonathan Mann**



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