SPORT

FRS 102

THE MAIN NEW IRISH GAAP STANDARD: IMPLICATIONS FOR THE SPORT SECTOR

November 2014

BDO

The long awaited replacement for Irish GAAP has Finally arrived in the form of FRS 102, the last and most important of the trio of new Irish GAAP standards. In this document we consider speciFically the impacts on the sports industry.

If you would like to discuss this document, or the impact of FRS 102 on your business in more detail, please do contact any one of the team listed on the back cover.

IMPLICATIONS FOR THE SPORTS SECTOR

Overview

BACKGROUND

Following an extensive development and consultation process the FRC has issued the last and most important of the trio of new Irish GAAP standards, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

FRS 102 is the culmination of a process to replace Irish GAAP that began nearly ten years ago. The initial plan was a step by step replacement of Irish GAAP by full IFRS and, despite progress, there were still important areas to address. The emergence of IFRS for SMEs presented an opportunity to derive a complete solution to replace the uncomfortable halfway house that Irish GAAP had become.

FRS 102 completes the suite of new Irish GAAP standards, the other two being:

- FRS 100 Application of Financial Reporting Requirements
- FRS 101 Reduced Disclosure Framework.

FRS 100 sets out whether entities may produce their consolidated or individual financial statements in accordance with EU IFRS, FRS 102, FRS101 or the Financial Reporting Standard for Smaller Entities (FRSSE).

FRS 101 sets out a reduced disclosure framework allowing qualifying entities to prepare financial statements largely consistent with EU IFRS but with substantial disclosure exemptions. FRS 101 can be applied to relevant subsidiaries from December 2012 year onwards.

WHAT IS FRS 102?

FRS 102 is the core of new Irish GAAP, providing a concise and simplified (when compared to full IFRS) accounting framework for companies in its scope. FRS 102 replaces all current Irish accounting standards (SSAPs, FRSs and UITFs other than FRS 27 Life Assurance) with a single FRS.

Originally derived from IFRS for SMEs, FRS 102 has undergone many changes during the development process. Helpfully, the changes reduce the number of accounting differences with existing Irish GAAP.

WHO HAS TO ADOPT FRS 102?

The introduction of FRS 102 will lead to a change in accounting for most Irish companies unless they currently apply and stay with EU IFRS or they are under the FRSSE. FRS 100 sets out the transitional arrangements for entities that change the basis of preparation of their financial statements either on first applying FRS 100 or subsequently.

WHEN IS FRS 102 MANDATORY?

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015. For a December year end, 1 January 2014 would be the transition date, the start of the comparative period in the first mandatory FRS 102 accounts.

CAN IT BE APPLIED EARLY?

Early application is permitted for accounting periods ending on or after 31 December 2012.

For those entities that are within the scope of a SORP, early application is permitted providing it does not conflict with the requirements of a current SORP or legal requirements for the preparation of financial statements. If an entity applies FRS 102 before 1 January 2015, it needs to disclose that fact.

HOW DOES FRS 102 COMPARE WITH CURRENT IRISH GAAP?

Although a number of changes have been made as a result of consultation, there remains some key differences when compared with current Irish GAAP. The appendix to this document gives a general summary of the key differences. We have considered in more detail below some of the more common differences specific to the sports industry.

PRESENTATION

For those companies that under current Irish GAAP have gains and losses presented in the Statement of Total Recognised Gains and Losses (STRGL), FRS 102 has a similar approach, except the STRGL is part of the Statement of Comprehensive Income. The Statement of Comprehensive Income can be presented as a single statement or as two separate statements, an Income Statement and a Statement of Comprehensive Income, effectively retaining the profit and loss and STRGL approach.

Although FRS 102 refers to the income statement and statement of financial position rather than a profit and loss account and balance sheet, inventory rather than stocks and property, plant and equipment rather than tangible fixed assets, companies adopting FRS 102 are still required to comply with the Companies Act formats. In addition FRS 102 permits alternative titles for the financial statements provided they are not misleading. We anticipate that many companies will continue to use the "old" terminology as it is better understood.

A company can present additional line items, headings and subtotals in the statement of comprehensive income, when such presentation is relevant to an understanding of the company's financial performance. When items included in total comprehensive income are material, a company should disclose their nature and amount separately, in the statement of comprehensive income or in the notes. A company should ensure that all amounts disclosed are representative of activities that would normally be regarded as 'operating'. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

IMPLICATIONS FOR THE SPORTS SECTOR

Overview (continued)

A specific primary statement, the statement of changes in equity, must now be given. Under current Irish GAAP the reconciliation of movement in shareholders' funds could be shown as a note. This new primary statement shows the movement in each component of equity and not just the grand total of shareholders funds.

The statement of cash flows will be divided into only three categories (operating, financing and investing) rather than the 9 that potentially exist under current Irish GAAP. It will also show cash and cash equivalents, a wider population than just cash in FRS 1.

For companies that have a policy of revaluing certain asset categories under Irish GAAP, there is no equivalent of a note of historical cost profits and losses under FRS 102.

Although these differences are mainly cosmetic, companies might need to find a way to communicate to stakeholders in a way that helps them understand why the accounts have a different feel and possibly to explain the new terminology used. In addition, in the first year of implementation, preparers may need to spend time reformatting the accounts for the revised presentation.

FINANCIAL INSTRUMENTS AND DERIVATIVES

FRS 102, like IFRS and current Irish GAAP, requires entities to categorise financial instruments issued as either debt, equity or compound.

FRS 102 requires financial assets and liabilities to be categorised as 'basic' or 'other'. This then determines whether they are subsequently accounted for at cost, amortised cost or fair value through profit or loss.

Financial instruments classified as 'other' and investments in shares (other than subsidiaries, associates and JVs) would generally be carried at fair value. The main difference for sports businesses is the requirement to show derivative financial instruments, e.g. interest rate swaps or foreign exchange contracts, at fair value on the balance sheet with changes in fair value taken to profit or loss unless hedge accounting is applied. Securitised receivables could also be classified as 'other' (depending on the terms) and any movement in the fair value also recognised in profit or loss.

Gains and losses on derivatives held as hedging instruments and meeting certain conditions are permitted to be shown in OCI and subsequently reclassified to profit or loss. It is likely that this section will be revised once the remaining IFRS 9 phases are completed.

If the fair value movement on financial instruments is taken to the profit or loss, then there will be far greater volitility in the profit before tax number – and specifically within the finance cost lines.

Intercompany term loans between group companies at below market interest rates would initially be recognised at fair value (discounted present value of future cash flows), any difference between the fair value and actual amount loaned would be recognised as a capital contribution in reserves.

EXAMPLE

A sports company agreed a bank loan of €50m which was lent at Euribor plus margin. In order to fix their interest cost the company also takes out a floating for fixed interest rate swap.

Under Irish GAAP, this would be disclosed at its fair value in the statutory accounts. Under FRS 102, the fair value of the swap would be recognised within the financial statements. The company does not qualify for hedge accounting, and so the movement in the swap is recognised in the profit and loss account.

- At the end of year 1, the swap has a positive value of €2m.
- At the end of year 2, interest rates have fallen and so the value of the swap has fallen to a liability of €2m.
- At the end of year 3, the swap has a positive value of €1m.

	YEAR 1 €'000	YEAR 2 €'000	YEAR 3 €'000
Revenue	26,000	27,000	28,000
Cost of sales	(13,200)	(13,850)	(14,500)
Gross profit	**12,800**	**13,150**	**13,500**
Administrative expenses	(5,000)	(5,050)	(5,100)
Operating profit	**7,800**	**8,100**	**8,400**
Finance costs - interest charge	(3,000)	(3,000)	(3,000)
Finance costs - fair value movement	2,000	(4,000)	3,000
Profit before tax	**6,800**	**1,100**	**8,400**

ACCOUNTING IMPACT

Specifics for Professional Sports businesses

LEASE ACCOUNTING

With regard to lease incentives, FRS 102 mirrors the position under IFRS where incentives are spread over the expected lease term rather than the shorter of the period to the first break clause in the lease or the first rent review. This may give rise to a longer period for spreading lease incentives than under current Irish GAAP, so the benefit of a rent-free period will have less of an effect in the early years of the lease. In addition a transitional provision means that this change will only apply to leases entered into after the date of transition.

Regarding the disclosure of lease commitments, FRS 102 aligns itself with full IFRS requiring a maturity analysis of the total lease commitment. Under current Irish GAAP, the disclosure is made of the annual lease commitment only.

Where the company chooses to sub-let its property, a lessor would also be required to disclose a maturity analysis for contracted future annual rental income receivable

FRS 102 adopts the operating v.s. finance lease approach used in current Irish GAAP and IFRS. However a recent IASB ED proposes that lessees should bring many more leases on balance sheet grossing up assets and liabilities. It remains to be seen if or when a similar approach ripples down to FRS 102.

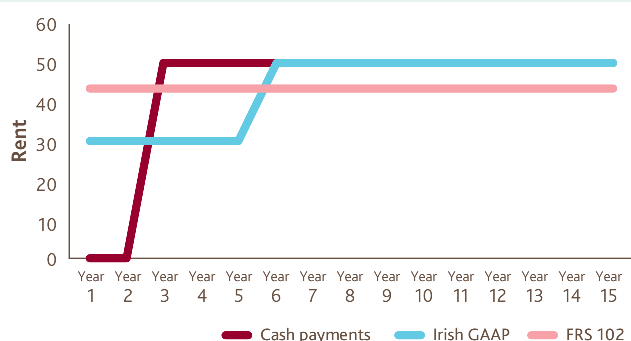
EXAMPLE

A sports company enters a 15 year lease which has upward only rent reviews every 5 years.

The landlord has agreed to a rent free period of two years. After this the rent reverts to 50 which is a market rent.

Under Irish GAAP, the lease incentive is spread over the period to the first rent review. Under FRS 102, the incentive is spread over the whole lease. For the purposes of the graph below it is assumed that there is no change in the rent value at each rent review.

- Under FRS 102, the rent charge is higher in the first five years, but lower in the following 10 years.
- This will result in lower profit levels in the initial years compared to Irish GAAP but also a lower tax charge.



BUSINESS COMBINATIONS AND GOODWILL

Under FRS 102, merger accounting will only be allowed in the case of group reconstructions, whereas under current Irish GAAP, merger accounting is permitted if certain criteria are met.

In a business combination, FRS 102 requires the recognition of identifiable intangibles such as customer/client relationships and brand value, where these can be reliably measured at fair value. This has been the case when applying EU endorsed IFRS, but for current adopters of Irish GAAP, this will be a new area to consider. Direct acquisition costs will continue to be capitalised as part of the cost of acquisition rather than expensed as incurred under EU IFRS.

With regard to goodwill, the application of FRS 102 requires management to establish a reliable estimate of the useful economic life (UEL) of goodwill. Where this cannot be done, the UEL defaults to a maximum of five years. This is subtly different to the requirements of current Irish GAAP which has a rebuttable presumption that the UEL will not exceed 20 years.

Negative goodwill up to the fair value of non-monetary assets is recognised in profit or loss as those assets are recovered. Negative goodwill in excess of the fair value of non-monetary assets is recognised in the period expected to benefit.

INTANGIBLE ASSETS OTHER THAN GOODWILL

Under FRS102 there is a still a choice whether to capitalise or write off development costs and specific criteria must be met in order to capitalise assets.

The difference arises on the useful economic life (UEL), under Irish GAAP there was a rebuttable presumption that the UEL of an asset would not exceed 20 years. Under FRS102 if a reliable estimate of the UEL cannot be made the asset should be amortised over a period not exceeding 5 years.

JOINT VENTURES AND ASSOCIATES

There are a number of potential differences on adoption of FRS 102 that will affect the group financial statements of those groups currently reporting under Irish GAAP who have investments which are classified as either joint ventures, a joint arrangement that is not an entity (JANE) or associates. The classification of an interest as a joint venture or JANE under Irish GAAP is reflective of the substance of the arrangement rather than the legal form. FRS 102 differentiates between; jointly controlled entities, jointly controlled operations and jointly controlled assets with classification based on legal form rather than substance. In short, investments which are currently accounted for as joint ventures under Irish GAAP could end up being accounted for as JANEs under FRS 102 and vice versa.

ACCOUNTING IMPACT

Specifics for Professional Sports businesses (continued)

Jointly controlled assets and operations are accounted for by recognising the appropriate share of assets and liabilities and of income and expense, similar to accounting for a JANE. Jointly controlled entities are accounted for using the equity method. The gross equity accounting method is not recognised under FRS 102. The other significant difference between current Irish GAAP and FRS 102 is that under FRS 102 the recording of the share of cumulative losses is restricted to the carrying amount of the investment. After that is reduced to zero, additional losses are only recorded if the investor has a legal or constructive obligation. Current Irish GAAP requires an interest in net liabilities to be recorded unless certain criteria are met. This could have significant implications for those companies who are party to "under water" joint ventures entered into before the credit crunch.

INVESTMENT PROPERTY

FRS 102 requires investment property to be accounted for at fair value if reliably determinable without undue cost or effort. We would not anticipate many companies in Ireland claiming that the fair values of their property portfolios cannot be reliably determined. We would therefore expect companies to continue showing investment properties at valuation as required by current Irish GAAP.

A key change is that FRS 102 requires changes in fair value of investment properties to be taken to the income statement, which contrasts with current Irish GAAP where changes in fair value (other than impairment) are recognised in the STRGL. Gains on revaluation are unlikely to constitute realised profits under Irish Company Law. Companies will therefore need to keep a separate record of revaluation gains and distributable reserves.

An interesting change to the definition of investment properties is that they now include properties leased to other group companies. Under current Irish GAAP, the definition of investment property specifically excludes properties that are rented by one group company (i.e. propco) to another (i.e. opco), and consequently such properties are often accounted for at cost under FRS 15 Tangible fixed assets as owner-occupied property in both the individual accounts of the company owning the property (i.e. propco) and the consolidated accounts.

The FRS 102 definition of investment property, by contrast, does not include any such exclusion. Consequently, in the individual accounts of, propco the properties would be accounted for as investment property, even though from a group perspective they would be accounted for as owner-occupied properties at cost. This could lead to a requirement for additional valuations.

BORROWING COSTS

Like current Irish GAAP FRS 102 provides a policy choice regarding the capitalisation of borrowing costs. This contrasts with IFRS, which requires borrowing costs on qualifying assets to be capitalised. Therefore the timing of the recognition of profit will vary depending on the accounting framework adopted. This may be good news for property developers that currently depend on being able to capitalise interest under current Irish GAAP to meet covenants. A subtle difference is that the definition of "qualifying assets" (i.e. those assets where it is appropriate to capitalise borrowing costs) under FRS 102 is tighter than that under current Irish GAAP. The definition of qualifying assets mirrors that currently given in IAS 23 borrowing costs under IFRS.

RELATED PARTIES

FRS 102 presents some changes for firms currently applying Irish GAAP. Under FRS 102 the name of the related party does not need to be disclosed as is the case with current Irish GAAP. Only the nature of the relationship requires disclosure under FRS 102.

In addition FRS 102, like EU IFRS, requires the total of key management compensation to be disclosed, including social security costs and share based payments expense. Key management may be a wider body of employees than just statutory directors, and is in addition to the remuneration reporting requirements of Companies Act 1963-2013.

The exemption from the disclosure of transactions between wholly owned entities of a group or between the parent and a wholly-owned subsidiary remain the same as under current Irish GAAP.

EMPLOYEE BENEFITS AND PENSION SCHEME ACCOUNTING

Under FRS 102 holiday pay should be accounted for as an accrual or prepayment as under IFRS. This differs from current Irish GAAP where holiday pay is not generally accounted for.

The multi-employer exemption under current Irish GAAP which allows groups not to reflect a defined benefit plan surplus or deficit in the individual accounts of any entity within the group (i.e. only within the group accounts), is removed under FRS 102. FRS 102 instead requires that a plan surplus or deficit be reflected in the individual accounts of the sponsoring entity or in the individual accounts of other group entities as appropriate, and as such, presents additional disclosure requirements for companies which may have a number of entities participating in a group scheme. This may have an impact on the distributable reserves of individual companies.

TAX ASSET

It is important to identify the tax impact of the move to FRS 102. Changes to accounting treatments that affect profit before tax may affect corporation tax payable - both how much is due and when it has to be paid. Of course, in some areas (such as financial instruments) the tax treatment may not follow the accounting rules so it is vital to analyse where tax changes will be triggered. In some situations, it may also be important to consider the differences in the tax impacts between adopting FRS 102 and EU IFRS.

First time adoption adjustments could have a significant impact on a company's tax liability. It is important to consider whether these are taxed in the year of change, spread or whether there is no immediate effect.

Once potential tax impacts are identified, the next task is to determine the actions required in terms of making appropriate elections, reviewing incentive arrangements and reviewing agreements with Revenue. For example, for intangible assets and financial instruments it will be necessary to carefully consider whether certain elections are advantageous and, if so, ensure that they are made by the prescribed deadlines.

DEFERRED TAX

FRS 102 continues to require the recognition of deferred tax on the basis of timing differences (rather than temporary differences under EU IFRS).

FRS 102 also requires differences between the tax value and the fair value of assets and liabilities acquired in a business combination to be recognised, for example on the capitalisation of intangibles such as customer/client relationships or brand name.

TRANSITIONAL RULES

Although FRS 102 generally requires full retrospective treatment on first time adoption, it contains specific transitional arrangements that will allow companies not to restate certain transactions that have already been reflected under existing Irish GAAP. These transitional arrangements are similar to those that exist for first time adopters of full EU IFRS.

COMMERCIAL AND PRACTICAL CONSIDERATIONS

The countdown to transition to FRS102 has already commenced. It is important that some initial planning is undertaken, in particular if key transactions are expected before the transition date that could be impacted by the transitional rules under FRS 102.

Some of the more common areas to consider are set out below.

Does the company have any agreements which are based on the numbers?

Examples include:

- Debt covenants
- Management agreements
- Remuneration and share based payment schemes.

Agreements may need to be rewritten or renegotiated and the company will need to have a view as to how the numbers may actually look under FRS 102 to achieve that.

Which wider business planning activities will be impacted by the change?

FRS 102 is not just an issue for the annual accounts but could have consequences for budgets and forecasts, tax planning strategies and tax charges and payments.

What impact will there be on distributable reserves, if any?

To declare a dividend a company needs to have sufficient distributable reserves. The adoption of FRS 102 may have an impact on distributable reserves and the company will need to be able to estimate the impact and plan accordingly.

Does the company have any group reporting responsibilities?

Where the company sends a reporting pack to the parent for group reporting purposes, this may need to be amended to reflect the change in accounting standards; for example consolidation adjustments may change. Likewise, where the company is responsible for preparing group numbers, the consolidation adjustments posted may be different to those in previous years.

Will existing accounting systems need to be updated?

If the company accounting system is set up for existing Irish GAAP then it is possible it will need some refinement or, at worst, a larger scale update to enable transition.

What staff training will be required for transition?

For the company finance team to be able to prepare the numbers under FRS 102, they will require training to understand the key differences and how these impact on the accounting entries they process. Practical aspects of training delivery to consider are:

- Who actually needs the training and when do they need it by?
- How will this be delivered and by whom?
- Can this be done in house or will an external provider be required?

How will agreements with Revenue be affected?

Revenue now includes clauses in agreements such as advanced thin capitalisation agreements to ignore changes in accounting framework. This may mean that companies need to continue to maintain records under old Irish GAAP to calculate interest deductibility.

WHAT ACTION SHOULD BE TAKEN?

BDO's suggested conversion methodology is set out below and demonstrates how BDO can help you with the conversion to FRS 102.

IT IS NOT ALL ABOUT FINANCE

It is important to remember that, on conversion to FRS 102 companies should not only focus on the finance teams for a successful transition but also involve other functions such as tax, systems, regulatory, human resources, and training.

Beyond managing a smooth transition to FRS 102, a conversion project offers an ideal opportunity (where possible) to reorganise a group. For example, it may be sensible to liquidate dormant companies before conversion for cost purposes, plan new tax-efficient strategies and work with the systems teams to ensure that systems infrastructure simplifies the production of information under the new requirements. A plan should also be put in place to ensure existing staff understand the requirements under the new standards as illustrated in the diagram below.

CONVERSION METHODOLOGY

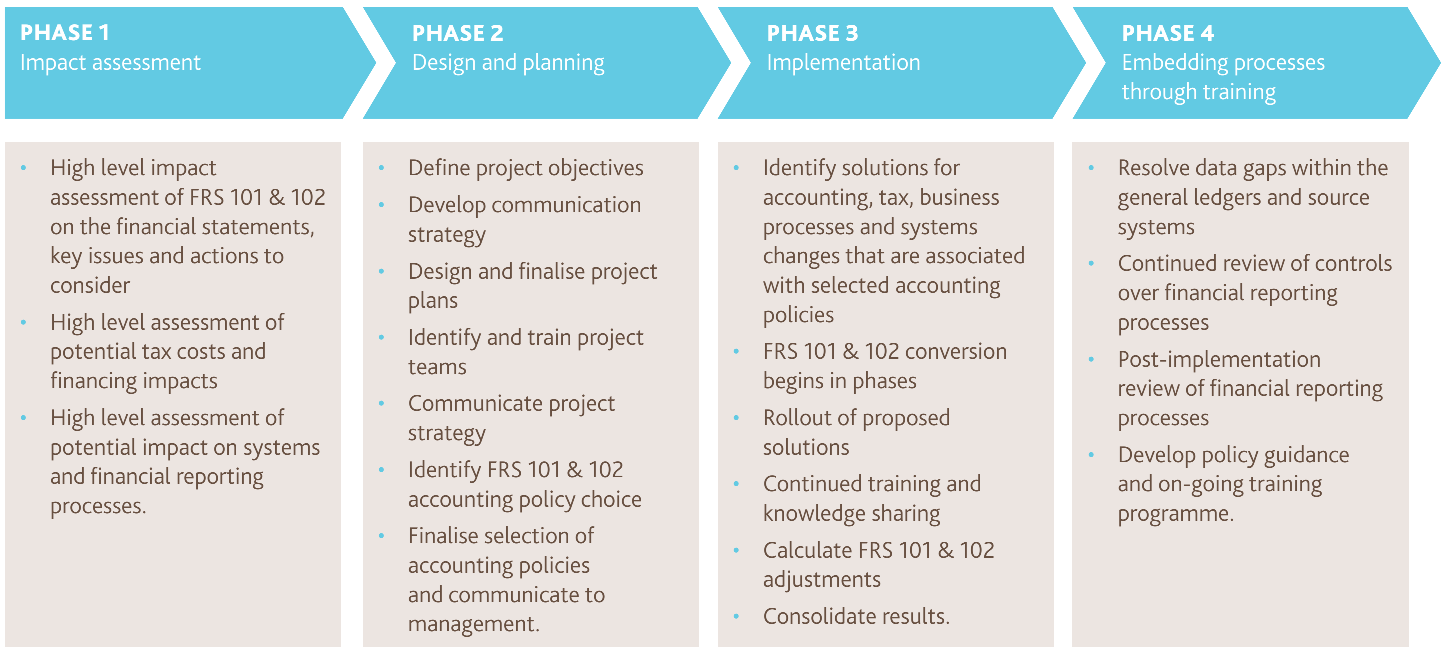
Our methodology is split into four phases:

- Impact assessment
- Design and planning
- Implementation
- Embedding processes through training.

The illustration lists just some of the actions to be undertaken in each phase and there is some overlap between the phases. Once the impact assessment is complete, training will be required at each stage to ensure your project goals are achieved.

ON CALL SUPPORT

We can also provide on call support on an hourly basis to help clients prepare themselves for the adoption of FRS 102. A set number of hours of help can be purchased as part of the on call support.



FRS 102 'THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND'

Comparison of FRS102 to current Irish GAAP and EU IFRS

KEY:

- High significance
- Medium significance
- Low significance

Topic	Current Irish GAAP	FRS 102	EU IFRS
Primary statements (Medium significance)	Profit and loss account.	Income statement.	Income statement.
	Statement of total recognised gains and losses (STRGL).	Statement of comprehensive income. May be combined with income statement to show a single statement of comprehensive income.	Statement of comprehensive income. May be combined with income statement to show a single statement of comprehensive income.
	Note of historical profits and losses.	No equivalent.	No equivalent.
	Balance sheet.	Statement of financial position.	Statement of financial position.
	Shareholders' funds (presented as either a primary statement or a note).	Statement of changes in equity. If conditions are met may be combined with statement of comprehensive income as a statement of income and retained earnings.	Statement of changes in equity.
	Cash flow statement – cash flows categorised into potentially nine separate headings.	Statement of cash flows – cash flows classified as operating, investing or financing.	Statement of cash flows – cash flows classified as operating, investing or financing.
		Titles other than those noted above may be used provided they are not misleading. Compliance is also required with the relevant schedule to SI 2008/410.	
Volume of disclosures (High significance)	More than FRS 102 but less than EU IFRS.	Fewest.	Extensive.
Consolidated financial statements (Low significance)	Exemptions based on Companies Act 1963-2013 rules.	Same as current Irish GAAP – exemptions based on Companies Act 1963-2013 rules.	Exemptions for intermediate parents driven by ownership structure and the existence or otherwise of IFRS compliant accounts prepared by a higher parent in the group.
Prior year adjustments (Medium significance)	Prior year adjustment required for fundamental errors, which is generally understood to be a higher threshold than a material error.	Prior year adjustments required for material errors.	Prior year adjustments required for material errors.
	No requirements for a third balance sheet where prior year adjustments are made.	No requirements for a third statement of financial position where prior year adjustments are made.	Requires a third statement of financial position to be presented where prior year adjustments are made which have had a material effect on that statement of financial position.

Topic	Current Irish GAAP	FRS 102	EU IFRS
Financial instruments	For companies not adopting FRS 26, FRS 4 and FRS 25 deal broadly with the accounting for debt and equity issued. Accounting for other financial instruments determined by convention (i.e. initially recognised at proceeds, then at amortised cost), unless the alternative accounting rules are applied such that financial assets can be revalued through a revaluation reserve. Financial assets and liabilities are only held at fair value through profit or loss if an election is made under the Companies Act (by making this election, a company subjects itself to the full provisions of FRS 26) or if the company is listed and is required to adopt FRS 26.	Requires instruments issued to be categorised as debt or equity or a compound. Covers many types of financial instruments setting out requirements for those to be measured at amortised cost ('basic financial instruments') and those to be measured at fair value through profit or loss ('other financial instruments') depending on characteristics. An election may be made on initial recognition for certain basic debt instruments to be measured at fair value through profit or loss. The revaluing of financial assets through a revaluation reserve will no longer be possible.	Requires instruments issued to be categorised as debt, equity or a compound. Distinguishes between four categories of financial assets and two categories of financial liabilities, with each having their own recognition and measurement rules. It requires the identification and separate accounting of embedded derivatives in some instances.
	Disclosures driven by Companies Act 1963-2013 requirements (NB disclosures also required by FRS 13 - but very few entities fall within the scope of this standard - or FRS 29 if FRS 26 has been adopted).	Some disclosures, extended for financial institutions. Also disclosures driven by Companies Act 1963-2013.	Extensive disclosure requirements.
	N/A	The ASB intends to issue supplementary exposure drafts for amendments to FRS 102 reporting of financial instruments once the remaining IFRS 9 phases on hedge accounting and impairment are completed.	Current standard on financial instruments(IAS 39) being gradually replaced with revised rules (IFRS 9) in an attempt to simplify the accounting, although unlikely to be effective prior to 2015.
Derivatives and hedge accounting	Derivative contracts are not held at fair value on the balance sheet unless an election is made under the Companies Act and full provisions of FRS 26 applied.	Derivatives are normally carried at fair value through profit or loss. Gains and losses on derivatives held as hedging instruments and meeting certain conditions are permitted to be shown in OCI and subsequently reclassified to profit or loss. It is likely that this section will be revised once the remaining IFRS 9 phases are completed.	Derivatives are normally carried at fair value through profit or loss. Gains and losses on derivatives held as hedging instruments and meeting certain conditions are permitted to be shown in OCI and subsequently reclassified to profit or loss.

KEY:

High significance — Medium significance — Low significance

Topic	Current Irish GAAP	FRS 102	EU IFRS
Investments in associates (group accounts) (Medium significance)	Equity accounting.	Equity accounting.	Equity accounting.
	Share of all losses recognised even when this leads to an interest in net liabilities, unless the investor has irrevocably withdrawn from the relationship.	The default treatment is the opposite of current Irish GAAP, i.e. the investor stops recognising losses when its investment reaches zero, unless it has a legal or constructive obligation to make good its share.	The default treatment is the opposite of current Irish GAAP, i.e. the investor stops recognising losses when its investment reaches zero, unless it has a legal or constructive obligation to make good its share.
Investments in joint ventures (group accounts) (Medium significance)	Distinction made between JVs and JANEs.	Distinction made between jointly controlled entities, jointly controlled assets and jointly controlled operations.	Distinction made between two types of joint arrangement, joint operations and joint ventures.
	Classification as a JV where the substance of the arrangement constitutes a separate trade, irrespective of whether a separate legal entity is created.	Classification as a jointly controlled entity driven by whether the arrangement involves the creation of a separate legal entity.	Classification as a joint venture driven by an assessment of the parties' rights and obligations under the arrangement. A joint venture exists where the parties have an interest in the net assets of the arrangement.
	Gross equity accounting required for JVs.	Equity accounting required for jointly controlled entities.	Equity accounting required for joint ventures.
	Share of all losses recognised.	No recognition of share of losses in excess of cost of investment unless the entity has incurred legal or constructive obligations.	No recognition of share of losses in excess of cost of investment unless the entity has incurred legal or constructive obligations.
Investment property (Medium significance)	Measurement is at open market value with changes shown as revaluations through the statement of total recognised gains and losses.	Measurement is at fair value, if reliably determinable, with changes in profit or loss. Otherwise, measured at depreciated cost.	Accounting policy choice: measured at fair value with changes in profit or loss or at depreciated cost.
	Definition of investment property excludes properties leased to other members of the same group.	Definition of investment property includes properties leased to other members of the same group in the individual accounts of the lessor but not in the consolidated accounts.	Definition of investment property includes properties leased to other members of the same group in the individual accounts of the lessor but not in the consolidated accounts.
	Interests held under an operating lease are usually measured at the fair value of net cash flows (net leasehold interest).	Interests held under a lease to be accounted for as a finance lease with obligations payable recognised separately.	Interests held under a lease to be accounted for as a finance lease with obligations payable recognised separately.

Topic	Current Irish GAAP	FRS 102	EU IFRS
Mixed use property	For property that is partially owner-occupied and partially held for investment, split accounting permitted, or alternatively classification of property based on the preponderance of use.	Split accounting required for mixed use properties.	Split accounting required for mixed use properties.
Property, plant and equipment	Revaluation of tangible fixed assets is available as an accounting policy choice (EUV in most cases).	Revaluation of PPE at fair value is available as an accounting policy choice.	Revaluation of PPE at fair value is available as an accounting policy choice.
	Material residual values should be reviewed to take into account reasonably expected technological changes. Any revisions should be based on prices prevailing at the date of acquisition or last revaluation.	If there are indicators that residual value has changed then the estimate should be reviewed and, where necessary, revised based on prices at the date of the revision.	Residual values should be reviewed at least at each reporting date and, where necessary, revised based on prices at the date of the revision.
Intangible assets other than goodwill	Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.	Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.	Development costs must be capitalised if specific criteria are met. Otherwise they are expensed.
	Intangible assets amortised over UEL, with a rebuttable presumption that this will not exceed 20 years.	If a reliable estimate of the UEL cannot be made the life should not exceed five years. This may accelerate tax deductions compared to under current Irish GAAP.	An intangible asset may have an indefinite life, in which case it is not amortised but subject to annual impairment reviews, or a definite life over which it is amortised.
	Software costs classified as tangible fixed assets if they are directly attributable to bringing a computer system into working condition for intended use within the business.	Classification of software costs not addressed. Therefore appropriate accounting policy should be selected (having regard to sections 10.4 to 10.6 of FRS 102) to classify as either a tangible fixed asset or an intangible asset. This may change the timing of tax relief on transition from current to new Irish GAAP.	Software costs that are not an integral part of related hardware are classified as intangible fixed assets.
Business combinations and goodwill	Merger accounting permitted if certain criteria are met.	Group reconstructions may be accounted for by using the merger accounting method (as for current Irish GAAP for group reconstructions) Otherwise merger accounting not permitted, except in some forms of combinations of public benefit entities.	Acquisition accounting must be used if within the scope of the business combination standard IFRS 3. If not (e.g. combination of entities under common control) a suitable accounting policy must be devised in accordance with the hierarchy in IAS 8.

KEY:

High significance · Medium significance · Low significance

Topic	Current Irish GAAP	FRS 102	EU IFRS
Business combinations and goodwill (continued)	Intangible assets rarely recognised separately from goodwill on a business combination.	Recognise identifiable intangibles (e.g. customer relationships and brands) on a business combination that can be measured reliably at fair value. Where tax relief is available, this may impact on the timing of that relief.	Recognise identifiable intangibles on a business combination at fair value.
	Direct costs capitalised as part of the cost of acquisition.	Direct costs capitalised as part of the cost of acquisition.	All costs of acquisition written off as incurred.
Fair value adjustments after acquisition	Adjustments may be made to the fair values of assets and liabilities acquired in a business combination in the first and second balance sheets after the acquisition (i.e. to the end of the first full year post acquisition).	Adjustments may only be made to amounts recognised at the acquisition date if they are identified within 12 months of the business combination, and are adjusted retrospectively. Thereafter they are only treated as adjustments to the initial accounting in order to recognise an error.	Adjustments may only be made to amounts recognised at the acquisition date if they are identified within 12 months of the business combination, and are adjusted retrospectively. Thereafter they are only treated as adjustments to the initial accounting in order to recognise an error.
Goodwill	Measured as the excess of the cost of the business combination over the acquirer's share of the fair value of the identifiable assets, liabilities and contingent liabilities.	Measured as the excess of the cost of the business combination over the acquirer's share of the fair value of the identifiable assets, liabilities and contingent liabilities.	Goodwill may be measured based on either the excess of the cost of the business combination over the acquirer's share of the fair value of the identifiable assets, liabilities and contingent liabilities or may be measured based on the fair value of the non-controlling interest (effective grossing up of goodwill).
	Contingent consideration is adjusted against the cost of acquisition until settled.	Contingent consideration is adjusted against the cost of acquisition until settled.	Adjustments to contingent consideration are recognised in profit or loss except in the limited instances when they are measurement period adjustments and relate to conditions at the date of acquisition.
	Goodwill amortised over UEL, with a rebuttable presumption that this will not exceed 20 years.	If a reliable estimate of the UEL cannot be made the life should not be exceed five years.	Goodwill not amortised but subject to formal annual impairment review.
	Negative goodwill up to the fair value of non-monetary assets is recognised in profit or loss as those assets are recovered. Negative goodwill in excess of the fair value of non-monetary assets is recognised in profit or loss in the period expected to benefit.	Negative goodwill up to the fair value of non-monetary assets is recognised in profit or loss as those assets are recovered. Negative goodwill in excess of the fair value of non-monetary assets is recognised in profit or loss in the period expected to benefit.	Negative goodwill (gain from a bargain purchase) is recognised in profit or loss immediately on the acquisition date.

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Leases	Lease incentives spread over the period to first rent review.	Leases incentives spread over the lease term. For lessees with rent reviews built into their lease contracts, taxability of lease incentive payments may therefore be spread over a longer period than under current Irish GAAP.	Leases incentives spread over the lease term.
	Disclosure required of the annual lease commitment.	Disclosure required of the total future minimum lease commitment.	Disclosure required of the total future minimum lease commitment.
Government grants	Recognition of grant income in profit and loss matched to the related expense.	Accounting choice. Recognise in income when performance-related conditions have been met (performance model) or recognise in income matched to the related expense (accrual model). Switching to the performance model may affect the time at which grant funds are recognised in the profit and loss and therefore the timing of taxability.	Recognition of grant income in income statement matched to the related expense.
Borrowing costs	Choice of capitalising or expensing borrowing costs during period it takes to make or construct an asset.	Choice of capitalising or expensing borrowing costs during period it takes to make or construct a qualifying asset.	Capitalisation of borrowing costs required during period it takes to make or construct a qualifying asset.
Share-based payment	Expense calculated by reference to option pricing models for awards made to employees.	Expense calculated by reference to the fair value of equity instruments for awards made to employees. Where observable market prices or market data (such as a recent transaction) are not available an alternative valuation methodology should be used though the use of an option pricing model is not specifically mandated. The ASB believe this would permit an entity to measure share–based payments "using models that are appropriate to the entity's circumstances".	Expense calculated by reference to option pricing models for awards made to employees.
Impairment of assets	Reversal of goodwill impairment permitted.	Reversal of goodwill impairment permitted.	Reversal of goodwill impairment not permitted.

KEY:

High significance Medium significance Low significance

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Employee benefits (Medium significance)	Holiday pay generally not accounted for.	Holiday pay to be recognised as an accrual or prepayment as appropriate.	Holiday pay to be recognised as an accrual or prepayment as appropriate.
	Actuarial gains and losses recognised in the statement of total recognised gains and losses.	Actuarial gains and losses recognised in other comprehensive income.	Following the recent revision to IAS 19, all actuarial gains and losses recognised in other comprehensive income.
	Projected unit credit method to be applied in full in measurement of the surplus or deficit.	Projected unit credit method to be applied in full in measurement of the surplus or deficit.	Projected unit credit method to be applied in full in measurement of the surplus or deficit.
Group defined benefit plans (Low significance)	The multi-employer exemption can allow groups not to reflect a defined benefit plan surplus or deficit in the individual accounts of any entity within the group, i.e. only reflected in the group accounts.	A plan surplus or deficit must be reflected in the individual accounts of the sponsoring entity or in the individual accounts of other group entities as appropriate.	A plan surplus or deficit must be reflected in the individual accounts of the sponsoring entity or in the individual accounts of other group entities as appropriate.
Deferred tax (Medium significance)	Recognised on the basis of timing differences with scope out of revaluations unless certain criteria are met.	Recognised on the basis of timing differences (with no scope out of valuations) and differences between the tax value and fair value of assets and liabilities (other than goodwill) acquired in a business combination.	Recognised on the basis of temporary differences.
Foreign exchange gains and losses on foreign operations (Low significance)	No requirement to keep track of cumulative exchange gains and losses arising on retranslation of foreign entities under SSAP 20 as they are not recycled. Tracking is required under FRS 23 as gains and losses are recycled on disposal of the subsidiary (FRS 23 is only applied if FRS 26 has been applied).	No requirement to keep track of cumulative exchange gains and losses arising on retranslation of foreign entities under FRS 102 as they are not recycled.	Cumulative exchange gains and losses arising on retranslation of foreign entities to be presented as a separate component of equity.
	Under FRS 23, exchange differences are recycled on disposal of the foreign entity (FRS 23 is only applied if FRS 26 has been applied).	No recycling through profit and loss account on the disposal of a foreign entity of exchange differences arising on their retranslation.	On disposal of a foreign entity, the related cumulative exchange differences are recycled through the income statement in determining the profit or loss on disposal.
		Under SSAP 20, no recycling through profit and loss account on the disposal of a foreign entity of exchange differences arising on their retranslation.	

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Related party disclosures	Name of related party needs to be disclosed.	Name of related party does not need to be disclosed, only their relationship to the reporting entity.	Name of related party does not need to be disclosed, only their relationship to the reporting entity.
	No requirement to disclose transactions between wholly owned entities of a group or between the parent and a wholly owned subsidiary.	No requirement to disclose transactions between wholly owned entities of a group or between the parent and a wholly owned subsidiary.	No exemption from disclosing transactions in an entity's individual financial statements between itself and other entities within the same group.
	Remuneration of directors covered by company legislation.	The total of key management compensation must be disclosed, including social security costs such as employer's national insurance contributions and share based payment expense. Key management may be a wider body of employees than just statutory directors. This is in addition to requirements of company legislation.	An analysis of key management compensation must be disclosed, including social security costs such as employer's national insurance contributions and share based payment expense. Key management may be a wider body of employees than just statutory directors. This is in addition to requirements of company legislation.
Presentation of discontinued operations	Operations must have ceased during the year or within three months of the balance sheet date to be classified as discontinued.	A component of an entity that has been disposed of and meets certain other criteria.	A component of an entity that has been disposed of or is classified as held for sale and meets certain other criteria.
	Provide an analysis between continuing operations and discontinued operations of each of the line items on the profit and loss account. Gain or loss on the sale of a discontinued operation shown as an exceptional item below operating profit.	Provide an analysis between continuing operations and discontinued operations of each line item of profit or loss on the face of the statement of comprehensive income, or income statement. In addition, show the total of the post-tax profit or loss of a discontinued operation; and the post-tax gain or loss recognised on the impairment or on the disposal of the net assets constituting a discontinued operation.	A single amount in the statement of comprehensive income comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

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Functional currency (Low significance)	Under SSAP 20 companies are required to draw up accounts in the currency of the primary economic environment in which it operates and generates net cash flows.	Same as Irish GAAP except chapter 30 sets out specific factors in determining a company's functional currency, including factors in determining whether the functional currency of a foreign operation is the same as that of its parent company.	Same as Irish GAAP except para 11 of IAS 21 sets out specific factors in determining a company's functional currency, including factors in determining whether the functional currency of a foreign operation is the same as that of its parent company.
Inter-company payables and receivables (Medium significance)	Most financial instruments, including payables and receivable such as intercompany loans are measured at the amount payable or receivable, with interest cost and income reflecting the amount due in each period prior to repayment.	All financial instruments must be initially recognised at fair value. For certain intercompany loans this may mean an amount different to that borrowed or lent (e.g. for long-term loans where the interest charged is less than market rates), with a knock-on effect to the amount of interest payable or receivable recognised in the income statement until repayment.	All financial instruments must be initially recognised at fair value. For certain intercompany loans this may mean an amount different to that borrowed or lent (e.g. for long-term loans where the interest charged is less than market rates), with a knock-on effect to the amount of interest payable or receivable recognised in the income statement until repayment.

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