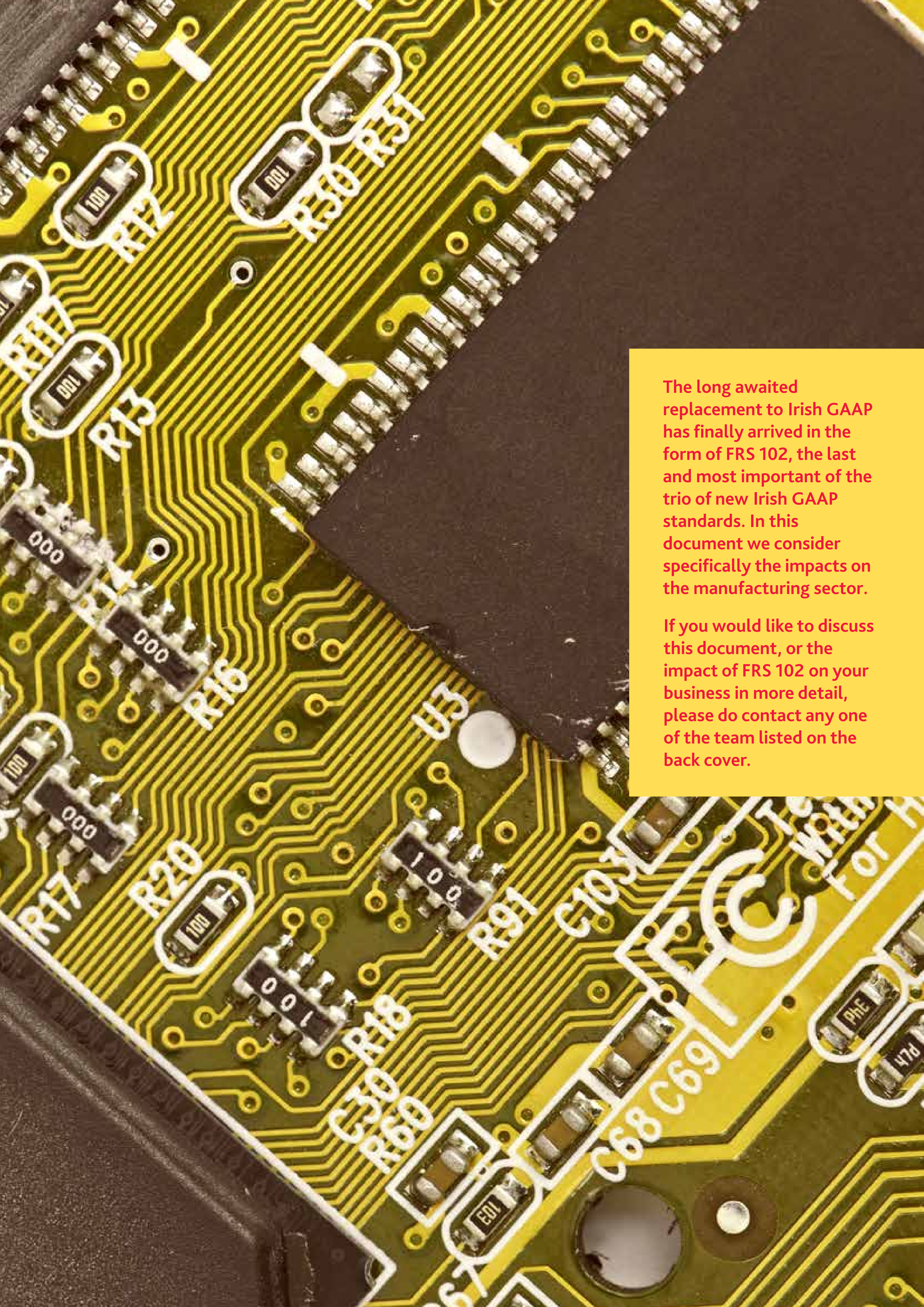
MANUFACTURING

FRS 102

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



The long awaited replacement to 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 manufacturing sector.

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 MANUFACTURING SECTOR

BACKGROUND

Following an extensive development and consultation process the Financial Reporting Council (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 International Financial Reporting Standards that have been adopted by the European Union (EU IFRS) and, despite progress, there were still important areas to address.

The emergence of the 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 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 onwards.

WHAT IS FRS 102?

FRS 102 is the core of new Irish GAAP, providing a concise and simplified accounting framework for companies within its scope. For manufacturing companies FRS 102 will replace all relevant Irish accounting standards (SSAPs, FRSs and UITFs).

WHAT ARE THE HEADLINE IMPLICATIONS FOR MANUFACTURING COMPANIES?

Originally derived from IFRS for SMEs, FRS 102 underwent a number of significant changes during its development. Helpfully, these changes reduced the number of accounting differences with existing Irish GAAP.

The overall application of FRS 102 will still significantly change certain key areas of financial reporting which are of importance to many manufacturing companies. The consequences include:

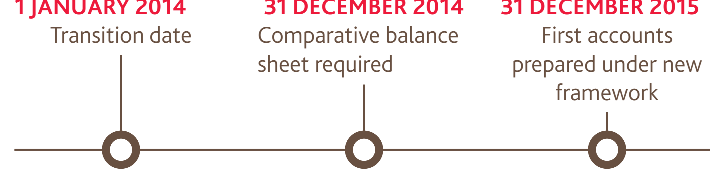
- The possibility of amortising goodwill over a much shorter useful life
- Obtaining valuations of intangible assets in order to recognise them separately from goodwill arising in a business combination
- A complete set of requirements for financial instruments accounting requiring derivative financial instruments and other specified financial instruments to be recorded on balance sheet at fair value
- Changes to how a group defined benefit pension scheme is accounted for in the separate financial statements of group entities
- More comprehensive deferred tax accounting rules potentially leading to more deferred tax liabilities being reported.

WHICH COMPANIES ARE REQUIRED 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.



The potential effects of FRS 102 require consideration now. The transition date is the first day of the comparative period for the first mandatory FRS 102 financial statements and is a critical date for many manufacturing companies. For a company with a 31 December 2015 year end the date of transition to FRS 102 is 1 January 2014.

IMPLICATIONS FOR THE MANUFACTURING SECTOR

CAN COMPANIES APPLY FRS 102 EARLY?

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

If an entity applies FRS 102 before 1 January 2015, it needs to disclose that fact.

WHAT WILL FINANCIAL STATEMENTS LOOK LIKE?

The general rules and formats of the Companies Act 1963-2013 remain relevant to many aspects of the balance sheet and profit or loss information. The format of the cash flow statement is simplified.

The volume of disclosures required by FRS 102 is less than current Irish GAAP and is considerably less than what EU IFRS requires a company to disclose.

Although many of the disclosures required by FRS 102 have an IFRS feel, for companies the accounts disclosures of the Companies Act 1963-2013 which remain applicable.

A notable benefit of FRS 102 is that it includes reduced disclosures for qualifying entities within a group (including parent entities) which helps to ease some of the financial reporting burden.

WHY SHOULD MANUFACTURING COMPANIES ACT NOW?

It is expected that reporting under FRS 102 will not only change reported profits and net assets but could also result in increased volatility in reported earnings. These changes will need to be managed with all key stakeholders, including banks.

Implementing FRS 102 might present a significant challenge to many manufacturing companies.

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.

HOW DOES FRS 102 COMPARE WITH CURRENT IRISH GAAP AND EU IFRS FOR MANUFACTURING COMPANIES?

Applying FRS 102 should not lead to significant recognition and measurement differences for many manufacturing companies in respect of the following areas:

- Turnover (Revenue)
- Stocks (Inventories)
- Short term trade receivables and payables
- Plant, machinery and equipment
- Provisions, contingent assets and contingent liabilities.

There are however some key differences to current Irish GAAP that remain. We have considered in detail below some of the more common differences specific to the manufacturing sector.

GOODWILL

Under current Irish GAAP there is a rebuttable presumption that the economic life of goodwill does not exceed twenty years. As a result it has been common practice is to amortise goodwill over twenty years or less.

FRS 102 requires goodwill to be amortised over a finite useful life. If a company is unable to reliably estimate the useful life of goodwill then the period of amortisation shall not exceed five years. Where the useful life of goodwill exceeds five years the supporting reasons for that require disclosure.

The obvious consequence of amortising goodwill over a shorter period is that some manufacturing companies will report lower net assets and profits under FRS 102, which may consequently result in lower taxable profits. This could affect a company's ability to meet bank loan covenants. For many companies the useful life of goodwill arising on acquisitions (both old and new) will require careful consideration.

OVERVIEW OF BUSINESS COMBINATIONS ACCOUNTING

Certain aspects of accounting for business combination accounting under FRS 102 will remain similar to current Irish GAAP. For example direct acquisition costs will continue to be capitalised as part of the cost of acquisition and changes to contingent consideration payable will still affect the carrying amount of goodwill.

Under FRS 102 merger accounting may only be applied to group reconstructions. Current Irish GAAP also permits the use of merger accounting where an entity combination is a true merger meeting specific criteria.

FRS 102 requires an acquirer in a business combination to identify and measure at fair value all of the acquiree's identifiable intangible assets, and account for them separately from goodwill. Deferred tax may need to be recognised where the book values of assets acquired differ from the base cost for tax purposes. For manufacturing companies currently applying Irish GAAP this will generally be a new area to consider.

For manufacturing companies the more common identifiable intangible assets include brands, trademarks, customer lists, customer contracts, contractual and/or non-contractual customer relationships, in-process research and development costs and order or production backlogs. This is by no means an extensive list.

FINANCIAL INSTRUMENTS
Overview

FRS 102 deals with both 'basic' financial instruments and 'other' financial instruments issues. The classification of a particular financial instrument as a 'basic' or 'other' (i.e. non-basic) instrument is critical as it will determine whether a particular financial instrument is carried at cost, amortised cost or fair value.

Financial instruments classified as non-basic and investments in shares (other than investments in subsidiaries, associates and JVs which under FRS 102 can be carried at cost) would generally fall to be carried at fair value.

Notwithstanding the impact of FRS 102's requirements in respect of accounting for derivatives (see below) certain types of loan financing will not meet the definition of a basic financial instrument and will instead be carried at fair value with changes in fair value being reported in profit or loss.

Manufacturing companies will therefore need to review their loan financing against FRS 102's criteria setting out what constitutes a basic loan accounted for on an amortised cost basis.

FINANCIAL INSTRUMENTS
Derivatives

It is commonplace for manufacturing companies to use derivatives to mitigate risk. Examples include:

- Foreign currency forward exchange contracts or foreign exchange swaps (to hedge overseas purchasing or sales requirements)
- Interest rate swaps or caps (to manage the cash flow risk attaching to their variable rate loan facilities).

Under FRS 102 derivatives are 'non-basic' instruments that are required to be recognised on balance sheet at fair value. Changes in fair value are recognised in profit or loss immediately, or at a later date to match with a hedged risk if specified criteria are met and hedge accounting is applied.

FINANCIAL INSTRUMENTS
Non-financial items

Commodities and inventories are examples of non-financial items. Manufacturing companies often enter into commodity forward contracts to hedge the risk of change in value of a commodity held or to be purchased (e.g. metal used in a manufactured product). Where such contracts are settled net in cash then FRS 102 requires them to be accounted for as non-basic instruments (i.e. at fair value as in the case of derivatives).

However, contracts to buy or sell a non-financial item where such a contract has been entered into for the purpose of the receipt or delivery of that item in accordance with a company's expected purchase, sale or usage requirements are not financial instruments for the purpose of applying FRS 102.

IMPLICATIONS FOR THE MANUFACTURING SECTOR

FOREIGN CURRENCY

The principles of foreign currency accounting in FRS 102 may lead to greater volatility in the results of manufacturing companies.

Companies that apply SSAP 20 Foreign Currency Translation will generally use forward rates implicit in matching or related forward contracts to translate foreign currency sales and purchases and their closing balances.

As noted above FRS 102 requires that a forward exchange contract is accounted as a derivative at fair value on balance sheet (either as financial assets or liabilities). Foreign currency sales and purchases are recorded initially at the spot rate of the transaction. Where the debtor or creditor remains outstanding at the balance sheet date, such balances will be translated at the closing rate.

Many parent companies currently applying SSAP 20 might have made loans to manufacturing subsidiaries and treated those loans as 'permanent as equity' i.e. fixing those loans at the historical rate of exchange at inception. FRS 102 requires all companies to retranslate all monetary assets and liabilities (including inter-company balances) at closing rate with the resulting translation differences being recognised in profit or loss.

SSAP 20 is silent on whether goodwill that arose on the acquisition of an overseas subsidiary should be subject to retranslation along with the identifiable assets and liabilities of that subsidiary and has therefore generally been treated as a sterling denominated balance. FRS 102 specifically requires such goodwill to be treated as being denominated in the currency of the related overseas entity.

LEASE ACCOUNTING

A significant proportion of manufacturing companies rent property under an operating lease and when negotiating a lease may receive a lease incentive (for example in the form of a cash payment or a rent free period).

In terms of the accounting, current Irish GAAP requires the economic benefit of a lease incentive to be spread over the shorter of the lease term and a period up to the date where the prevailing market rent will be payable.

In contrast FRS 102 requires lease incentives to be spread over the expected term of the lease. This may give rise to a longer period for spreading lease incentives than under current Irish GAAP, so the benefit of a renegotiated lease will have less of an effect in the early years of the lease, although this will help to slow down the recognition of the incentive for tax purposes.

However, a transitional relief exists on first time application of FRS 102 meaning that a company can maintain the current Irish GAAP treatment for leases that commenced before the dated of transition to FRS 102.

Regarding the disclosure of lease commitments, FRS 102 requires disclosure of a maturity analysis of the total lease commitment. This contrasts with current Irish GAAP which only requires disclosure of the annual lease commitment.

Where a manufacturing company sub-lets its property FRS 102 requires disclosure of a maturity analysis for contracted future annual rental income receivable whereas current Irish GAAP requires disclosure of the rental income receivable during the year.

As in the case of current Irish GAAP, FRS 102 adopts an operating lease vs. finance lease approach.

The International Accounting Standards Board (IASB) has issued an exposure draft of a new leasing standard which would dramatically change the accounting for many types of lease and requiring in many instances lease obligations to be reflected on balance sheet. Under current accounting rules operating leases are reflected off-balance sheet. It remains to be seen whether such proposals would form part of a future version of FRS 102.

EMPLOYEE BENEFITS

Defined benefit pension schemes

Many manufacturing companies currently applying Irish GAAP continue to operate defined benefit pension schemes and will be familiar with reporting significant accounting volatility in the form of interest cost on scheme liabilities, service cost, returns on scheme assets and actuarial gains and losses, at least at group level.

As is the case with current Irish GAAP, FRS 102 requires that a defined benefit scheme obligation is calculated by applying the projected unit method.

Under current Irish GAAP the expected return on pension scheme assets is recognised as income and is calculated by reference to long term expectations at beginning of the accounting period.

FRS 102 instead requires the expected return on pension scheme assets to be calculated by using the same discount rate applied to the discounting of pension scheme obligation (a rate obtained by reference to yields on high quality corporate bonds). The effect will be to reduce the level of income reported in respect of operating defined benefit schemes.

EMPLOYEE BENEFITS

Group defined benefit schemes

Where manufacturing groups operate a defined benefit pension scheme a multi-employer exemption is available in the individual accounts of each group entity that reports under current Irish GAAP.

This exemption is available in the extremely common situation where it is not possible for each individual group entity to identify its share of assets and liabilities of the pension scheme on a consistent and reliable basis and allows each individual group entity only accounts for its contribution payable to the scheme as an expense in profit or loss with the overall defined benefit obligation (asset) only being reported in group financial statements.

FRS 102 contains no multi-employer exemption for group companies and instead it requires the plan obligation (asset) to be reflected either:

- In the individual accounts of the group entity which is legally sponsoring the plan; or
- Where there is a stated policy or contractual agreement for charging the defined benefit cost across the group, proportionately across group entities.

Where a defined benefit scheme is in deficit these requirements could cause an adverse impact on the distributable reserves of the group entity which is legally sponsoring the plan.

It will therefore be necessary for companies to identify the legal sponsor of the defined benefit scheme and to consider the merit of introducing a contractual agreement for charging the defined benefit cost across group entities in order to mitigate the impact on distributable reserves. Where relevant this matter will require detailed consideration and any action as is necessary before the date of transition to FRS 102.

EMPLOYEE BENEFITS

Holiday pay

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

GOVERNMENT GRANTS

Manufacturing companies often obtain government grants to fund project expenditure.

Current Irish GAAP requires that grant income is recognised in profit or loss in order to match the related expense. FRS 102 retains this familiar accounting method and describes it as the 'accrual model'.

In what is a difference to current Irish GAAP, FRS 102 also includes an alternative type of accounting for government grants known as the 'performance model'. This accounting model requires grant income to be recognised in profit or loss in full when any future performance conditions attaching to that grant have been met. Recognition of grant income for tax purposes will follow the accounts.

FRS 102 requires a company to recognise government grants in accordance with one of the two models with the accounting policy choice being applied on a class-by-class basis.

PROPERTY HELD FOR OWN USE

Where manufacturing companies have chosen a policy of revaluing their owner-occupied property (i.e. property occupied by company and used in operations and not for purposes of capital appreciation or rental income) then a policy of revaluation may continue.

FRS 102 sets no minimum requirements as to the frequency of revaluation but requires that revaluations should be undertaken sufficiently frequently to ensure the carrying amount of owner occupied property at the reporting date does not differ materially from fair value. In contrast, current Irish GAAP requires as a minimum a full valuation to be performed every five years with an interim valuation to be undertaken in the third year of that cycle.

Where a policy of revaluing owner occupied property is chosen current Irish GAAP requires such property to be valued on the basis of existing use value (EUV) unless it is surplus to requirements, where the property is instead valued on an open market value (OMV) basis less selling costs.

In contrast FRS 102 requires owner occupied property to be measured at fair value. An EUV basis of valuation will often not correspond to fair value. Valuations will need to be reviewed to ensure that their basis is appropriate for reporting under FRS 102.

MANUFACTURING COMPANIES AND INVESTMENT PROPERTY

Under current Irish GAAP the definition of investment property specifically excludes properties that are rented by one group company to another and such properties are accounted for at cost or revaluation as owner-occupied property in both the individual accounts of the company owning the property and the consolidated accounts (see above).

The definition of investment property contained in FRS 102 by contrast, does not include any such exclusion. Manufacturing groups that hold their owner occupied property in separate property company need to be mindful of these changes to financial reporting.

Under both FRS 102 where a group company holds property ('a prop co') which is occupied by another group company then the prop co would account for its property as investment property, even though the group accounts will reflect that property as being owner-occupied.

IMPLICATIONS FOR THE MANUFACTURING SECTOR

FRS 102 requires investment property to be accounted for at fair value (with the obvious cost implications of obtaining annual valuations) unless obtaining valuations would cause 'undue cost or effort'.

Changes in the fair value of investment property are reflected in profit or loss, which contrasts with current Irish GAAP where changes in fair value of investment properties (other than impairment losses) are recognised in reserves.

Manufacturing companies that hold investment property as an incidental activity to their overall business or own mixed use property (see appendix) will need to be aware of the above accounting requirements and the increased potential for volatility in profit or loss as a result of fluctuations in the fair value of investment property.

SOME DISCLOSURES OF INTEREST TO MANUFACTURING COMPANIES

General disclosures for manufacturing companies

Many of the disclosure requirements of FRS 102 are less onerous than those contained in EU IFRS.

Some disclosures that are required by FRS 102 that differ to existing Irish GAAP and are of interest to manufacturing companies include:

- **Inventories** – additional disclosures include the amounts of inventories expensed in the period, impairment losses recorded on inventories, impairment losses on inventories that have been reversed
- **Judgements** – disclosure of information about judgements that management have made in applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements
- **Key sources of estimation uncertainty** – disclosure of information about key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year
- **Key management personnel remuneration** – 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.

Related party disclosures
FRS 102 does not require the name of the related party to a specific transaction to be disclosed, instead the nature of the relationship requires disclosure. This contrasts with current Irish GAAP which requires the names of the parties to related party transactions to be disclosed.

Like current Irish GAAP, FRS 102 includes an exemption for group entities allowing them not disclosure related party transactions with wholly-owned members of the same group.

Reduced disclosure framework
FRS 102 contains a reduced disclosure framework which permits certain disclosure exemptions in the individual financial statement of qualifying entities but not in consolidated financial statements.

A qualifying entity is a member of a group that prepares publicly available consolidated financial statements which are intended to give a true and fair view (of assets, liabilities, financial position and profit or loss) in which that member is consolidated.

The main disclosure exemptions include:

- Company cash flow statement not required
- Certain financial Instruments disclosures not required
- Certain share-based payment disclosures not required
- Remuneration of key management personnel not required.

A qualifying entity can only report under the reduced disclosure framework if its shareholders have been notified in writing and do not object to the use of the disclosure exemptions.

WHAT TRANSITIONAL RELIEFS ARE THERE?
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, examples include:

- Business combinations effected before the date of transition do not need to be restated
- Electing to use the fair value (or previous GAAP revaluation of property, plant and equipment) as a deemed cost. Assets including non-investment property and investments can be measured at fair value on the date of transition and that fair value can then be used as deemed cost
- In terms of deferred development costs a first-time adopter may elect to measure the carrying amount at the date of transition to FRS 102 for developments costs deferred in accordance with SSAP 13 'Accounting for Research and Development' as their deemed cost at the date of transition.

It is important that manufacturing companies understand in detail the transition requirements of FRS 102 and the extent to which the company can take advantage of reliefs offered.

TAX IMPACTS
It is of key importance to identify the tax impact of the move to FRS 102. Changes to accounting treatments that affect profit before tax may affect the comparative 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.

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 requires deferred tax to be calculated on a 'timing differences plus' approach.

Where a company elects to revalue its property, plant and equipment or has investment property held at fair value a consequence of FRS 102's approach will be a requirement to provide for the deferred tax consequences of that revaluation.

Current Irish GAAP requires deferred tax to be provided on revalued property at a particular reporting date only when there is in existence a legally binding agreement to sell that property.

FRS 102 also requires deferred tax to be provided on the difference between the tax value and the fair value of assets and liabilities acquired in a business combination, for example on the recognition an of intangible asset such as customer relationships or brand.

Accounting for deferred tax under FRS 102 will therefore provide a more comprehensive challenge to manufacturing companies than current Irish GAAP.

IMPLICATIONS FOR THE MANUFACTURING SECTOR

COMMERCIAL AND PRACTICAL CONSIDERATIONS

The countdown to transition to FRS 102 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.

What staff training will be required for transition?

A manufacturing company's finance team will require training in order to arm them with the required knowledge to prepare the numbers under FRS 102. Such training will help them to understand the key GAAP differences and how these impact on the required accounting entries.

Practical aspects of training delivery to consider include:

- 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?

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.

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.

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.

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.

Will existing accounting systems need to be updated?

If the manufacturing company's 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.

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 manufacturing companies convert to FRS 102.

CONVERSION METHODOLOGY

Our methodology is split into four phases:

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

The illustration below 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.

REMEMBER THAT IT IS NOT ALL ABOUT FINANCE

On conversion to FRS 102 manufacturing 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 FRS102, 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.

PHASE 1: IMPACT ASSESSMENT

- High level impact assessment of FRS 102 on the financial statements, key issues and actions to consider
- High level assessment of potential tax costs and financing impacts
- High level assessment of potential impact on systems and financial reporting processes.

PHASE 2: DESIGN & PLANNING

- Define project objectives
- Develop communication strategy
- Design and finalise project plans
- Identify and train project teams
- Communicate project strategy
- Identify FRS 102 accounting policy choice
- Finalise selection of accounting policies and communicate to management.

PHASE 3: IMPLEMENTATION

- Identify solutions for accounting, tax, business processes and systems changes that are associated with selected accounting policies
- FRS 102 conversion begins in phases
- Rollout of proposed solutions
- Continued training and knowledge sharing
- Calculate FRS 102 adjustments
- Consolidate results.

PHASE 4: EMBEDDING PROCESSES THROUGH TRAINING

- Resolve data gaps within the general ledgers and source systems
- Continued review of controls over financial reporting processes
- Post-implementation review of financial reporting processes
- Develop policy guidance and on-going training programme.

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

COMPARISON OF FRS 102 TO CURRENT IRISH GAAP AND EU IFRS FOR MANUFACTURING COMPANIES

This appendix sets out in a high level format some of the key differences between current Irish GAAP, FRS 102 and EU IFRS. We have also highlighted our assessment of the significance of those differences on the financial reporting of companies in the manufacturing sector.

Not one manufacturing company is the same and due to the wide variety of both business models employed by manufacturers and their varying degrees of complexity what could be deemed as low significance could be of high significance for a particular manufacturing company (and visa versa).

● High significance ● Medium significance ● Low significance

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
● (Low) **Primary statements**	Balance sheet and profit and loss formats required to be compliant with General Rules and Formats of Company Law.	Balance sheet and profit and loss formats required to be compliant with General Rules and Formats of Company Law.	Self-contained rules on format of primary statements.	
	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 of primary statements reflect those used in company law and accounting standards.	Titles for primary statements other than those noted above may be used provided they are not misleading.	Other titles for primary statements may be used.	
● (Medium) **Volume of disclosures**	More than FRS 102 but less than EU IFRS.	Fewest.	Extensive.	
● (Low) **Consolidated financial statements**	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.	

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
Prior year adjustments	Prior year adjustment required for fundamental errors (which is generally understood to be of 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.	
Financial instruments	Requires instruments issued to be categorised as debt or equity or a compound. Unless FRS 26 is applied (see EU IFRS on right) and the accounting is not covered in other standards for example FRS 4 or FRS 25 (which covers accounting for debt and equity instruments) the accounting for other financial instruments is 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).	Specific disclosure requirements. Disclosure also driven by Companies Act 1963-2013.	Extensive disclosure requirements.	

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

● High significance ● Medium significance ● Low significance

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
	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.	
● **Investments in associates (group accounts)**	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)**	Distinction made between JVs and a joint arrangement that is not an entity (JANE).	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.	

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
Investment property	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.	
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 (existing use valuation (EUV) in most cases).	Revaluation of property, plant and equipment (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 useful economic life (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.	

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

● High significance ● Medium significance ● Low significance

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
	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.	
	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.	
● **Impairment of assets**	Reversal of goodwill impairment permitted.	Reversal of goodwill impairment permitted.	Reversal of goodwill impairment not permitted.	
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.	

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
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.	
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.	

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

● High significance ● Medium significance ● Low significance

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
● **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 using observable market price of equity instrument where available. Where observable market prices not available use recent transaction in entity's shares or recent independent fair valuation of entity or its principal assets. Where observable market prices not available and it is impracticable to obtain a reliable measurement of fair value, indirectly measure fair value using a valuation method that uses market data to estimate fair value. Directors should use judgement to apply a generally accepted valuation methodology which is appropriate in the entity's circumstances.	Expense calculated by reference to option pricing models for awards made to employees.	
● **Employee benefits – Holiday Pay**	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.	
● **Employee benefits – defined benefit pensions**	Actuarial gains and losses recognised in the statement of total recognised gains and losses.	Actuarial gains and losses recognised in other comprehensive income.	For periods on or after 1.1.2013 all actuarial gains and losses recognised in other comprehensive income.	

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
	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.	
	Expected return on pension scheme assets recognised on profit or loss based on long term expectations at beginning of period.	Return on plan assets determined using same discount rate applied to the discounting of pension scheme obligation (by reference to yields on high quality corporate bonds).	For periods on or after 1.1.2013 return on plan assets determined using same discount rate applied to the discounting of pension scheme obligation (by reference to yields on high quality corporate bonds).	
Group defined benefit pension plans	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	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	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.	

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● High significance ● Medium significance ● Low significance

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
	Under SSAP 20, no recycling through profit and loss account on the disposal of a foreign entity of exchange differences arising on their retranslation.			
	Under SSAP 20 goodwill arising on overseas subsidiaries, joint ventures and associates is mainly treated as sterling balance.	Goodwill arising on overseas subsidiaries, joint ventures and associates is denominated in currency of overseas entity and is retranslated.	Goodwill arising on overseas subsidiaries, joint ventures and associates is denominated in currency of overseas entity and is retranslated.	
● **Foreign currency translation**	Under SSAP 20 , where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in that contract may be used. Where no related or matching forward contract for foreign currency sales and purchases transactions will be recorded initially at the spot rate of the transaction.	Forward exchange contracts to be accounted for separately as derivative financial instruments. Foreign currency sales and purchases will be recorded initially at the spot rate of the transaction.	Forward exchange contracts to be accounted for separately as derivative financial instruments. Foreign currency sales and purchases will be recorded initially at the spot rate of the transaction.	
	Debtors and creditors translated at the closing rate unless covered by a related or matching forward contract which may be used.	Receivables and payables translated at the closing rate.	Receivables and payables translated at the closing rate.	
● **Functional currency**	Where SSAP 20 is applied companies are required to present their financial statements in their local currency which is the currency of the primary economic environment in which the company operates and generates net cash flows	Use of the terminology functional currency as opposed to local currency setting out specific factors in determining a company's functional currency and whether functional currency of a foreign operation is the same as that of its parent company. Companies may present their financial statements in a currency that is not the functional currency of the company.	Use of the terminology functional currency as opposed to local currency setting out specific factors in determining a company's functional currency and whether functional currency of a foreign operation is the same as that of its parent company. Companies may present their financial statements in a currency that is not the functional currency of the company.	
● **Inventories**	Inventories are measured at the lower of cost and net realisable value.	Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell .	Inventories are measured at the lower of cost and net realisable value.	

TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
	Various techniques and formulae allowed in stock calculations (e.g. weighted average cost, retail method, standard cost) as long as such formulae and techniques approximate cost .	Various techniques and formulae allowed in stock calculations (e.g. weighted average cost, retail method, standard cost) as long as such formulae and techniques approximate cost .	Various techniques and formulae allowed in stock calculations (e.g. weighted average cost, retail method, standard cost) as long as such formulae and techniques approximate cost .	
	SSAP 9 states that use of latest purchase price is unacceptable in principle.	Most recent purchase price allowed if approximates cost.	IAS 2 is silent on use of recent purchase price, but allows techniques that approximate cost.	
	No requirement to disclosure amounts of inventory expensed in the period, impairments of inventory and reversals of impairment of inventory.	Disclosure required of amounts of inventory expensed in the period, impairments of inventory and reversals of impairment of inventory.	Disclosure required of amounts of inventory expensed in the period, impairments of inventory and reversals of impairment of inventory.	
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.	
Off-market related party loans which are not payable on demand	If FRS 26 is not applied then intercompany loans receivable (payable) are measured at cost (proceeds)	Initially measured at fair value (difference over proceeds is a capital contribution or a deduction from equity and its unwinding affects profit or loss over term)	Initially measured at fair value (difference over proceeds is a capital contribution or a deduction from equity and its unwinding affects profit or loss over term)	

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TOPIC	CURRENT IRISH GAAP	FRS 102	EU IFRS	YOUR NOTES
● **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.	

For more information

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