



# THE FUTURE OF UK GAAP

February 2011



## ▶ INTRODUCTION

The UK's Accounting Standards Board (ASB) has recently issued proposals on the future of UK Generally Accepted Accounting Principles (UK GAAP), with the publication of two Exposure Drafts (EDs) that could consign UK GAAP as we know it to the history books. These EDs represent the output of a consultation which began in the summer of 2009 and could lead to big changes in the financial reporting by, and reduced comparability in the financial statements of, companies.

All but the smallest companies and those already complying with full International Financial Reporting Standards (IFRS) will be affected to varying degrees. However, for groups that prepare consolidated financial statements in accordance with IFRS, typically those listed on the LSE's main and AiM markets, there are likely to be issues to consider in relation to the financial statements of individual companies in the group, many of which are still prepared in accordance with UK GAAP.

In this publication we set out what the issues are for companies to:

- Assist you in taking part in the debate around the future of UK GAAP so that you are in a position to respond to the proposals
- Inform you of the proposed new regime and the key accounting changes that would result
- Highlight some of the key practical and commercial considerations.

## ▶ THE TIER SYSTEM

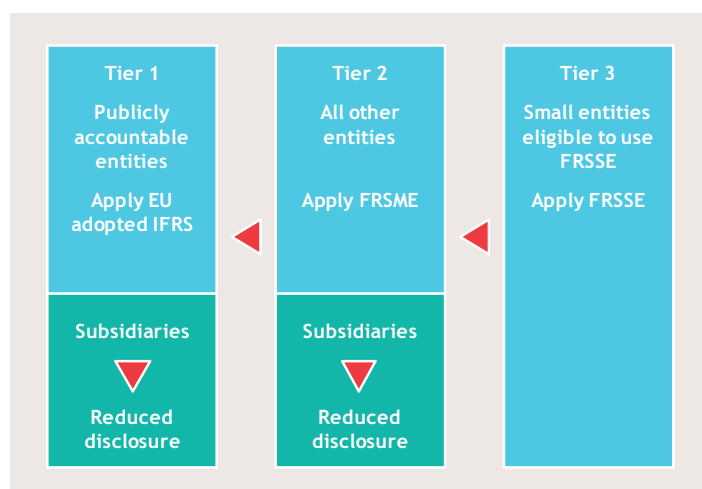
The first ED sets out the proposed three-tier financial reporting framework as follows:

- **Tier 1** comprises those companies that are considered 'publicly accountable', and in essence would mean those that are listed, irrespective of the exchange they are listed on. They would be required to prepare financial statements in accordance with full IFRS published by the International Accounting Standards Board (IASB).
- **Tier 2** comprises those entities that are neither publicly accountable nor 'small'. They would be required to prepare their financial statements in accordance with the proposed Financial Reporting Standard for Medium-sized Entities (FRSME), which is based heavily on the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs), a cut-down version of full IFRS published by the IASB.
- **Tier 3** comprises small companies as defined in companies' legislation. Such companies would be allowed to prepare their financial statements in accordance with the existing Financial Reporting Standard for Smaller Entities (FRSSE), although it is proposed that in time the FRSSE would give way to the FRSME.

It would be possible to trade up, but not trade down. Thus a company falling into tier 2 could voluntarily apply the rules applicable to tier 1 (full IFRS). Similarly, a small company falling into tier 3 could voluntarily apply full IFRS or the FRSME rather than the FRSSE.

## ▶ MORE TIERS OF JOY?

As well as the various acronyms, it is also proposed that tiers 1 and 2 be subdivided into sub-tiers. The proposed framework of reporting for companies in the UK is therefore as follows:



The use of sub-tiers enables subsidiaries to apply to some extent the same debits and credits as used by the parent in its consolidated accounts but avoid having to comply with all the disclosure requirements applicable to the group. It removes the need for potentially complicated consolidation models as most subsidiaries of tier 1 parents would themselves not be publicly accountable and therefore be in tier 2 (where the accounting can be very different) for the purposes of their individual financial statements. Without the use of sub-tiers, subsidiaries would need to voluntarily 'trade up' to tier 1 to avoid this complication.

However, this would come with the need to comply with the voluminous disclosure requirements that is often part and parcel of complying with full IFRS, and so the solution is to give disclosure concessions to such subsidiaries. The UK's ASB are seeking views on what disclosure concessions should be given and it is proposed that the reduced disclosure concessions would only be available to non-wholly owned subsidiaries if there is no objection from **any** minority interest.

Of course, the downside of the proposed framework is that it effectively results in the creation of 5 tiers, which in turn results in a significant loss of comparability between financial statements of companies.

## ► FRSME: JUSTIFIED CHANGE?

### Change for change's sake

The ASB argues that there is a need for change because UK GAAP:

- Is an incoherent mixture of standards developed in the UK over a long period of time and standards that have been converged with EU-endorsed IFRS
- Does not recognise certain transactions that are relevant to an assessment of the financial position of an entity, such as derivatives
- Have not kept pace with evolving business transactions.

The ASB believes that the FRSME addresses these concerns. Others are concerned as to whether the ASB has done sufficient research to determine what the needs of users of accounts really are and whether the proposals meet those needs. Questions also exist around what practice (or divergence in practice) might develop given that the FRSME contains less accounting guidance than current UK GAAP on certain issues, and whether there is real value in replacing UK GAAP with another set of requirements that continue, in some areas, to conflict with full IFRS (and the FRSSE).

### Costs and benefits

In line with government policy the ASB have undertaken a cost-benefit analysis to determine whether the new regulatory environment for the preparation of financial statements will be an improvement on the status quo. Whereas almost all entities will be able to relate to the costs, some of the identified benefits are arguably less tangible.

#### Costs

- Initial training
- Software
- Internal preparation costs
- External advice on preparation
- Audit of transition
- Need for more complex calculations due to use of fair value.

#### Benefits

- Tiered system provides targeted response to reporting requirements
- Reduced volume of literature
- Simplified accounting
- Increased stability
- Increased comparability with international quoted entities
- Improved access to capital markets and other finance sources
- Reduced burden for subsidiaries
- Streamlined continuous training based on one framework.

It is of course very difficult to quantify the costs, although the ASB has estimated them to be in the region of £78.9m. Excluding the 38 building societies that would meet the definition of publicly accountable and have to apply full IFRS, this works out at about £1,650 per company. Although the actual cost will vary from entity to entity the ASB's analysis also suggests a range of £610 on average for the least affected to £3,370 on average for the most affected.

Understandably the ASB does not attempt to quantify the benefits noting that it is impossible to do so in a reasonable way. However, they do suggest that banks would be willing to reduce interest rates charged on borrowings on the back of the perceived improvements in financial reporting that would result from use of the FRSME. It seems equally, if not more, plausible that banks would look to reprice borrowing rates upwards should the new accounting rules in the FRSME give rise to increased earnings volatility or technical breaches of loan covenants.

The importance of interested parties responding to the proposals on costs and benefits has never been more apparent given the ASB's statement that the limited response rate to previous requests for feedback on costs and benefits "implies that respondents feel the cost / benefit considerations are not imbalanced". This might be true. Alternatively, the limited response rate might be a function of the acknowledged inherent difficulties in quantifying costs and benefits coupled with the fact that constituents who are most likely to have a feel for whether costs are outweighed by benefits (ie users and preparers) may not have been fully engaged in previous consultations.



# ▶ THE ACCOUNTING DIFFERENCES

We provide a summary of the differences between current UK GAAP, the proposed new UK GAAP for tier 2 companies (the FRSME) and full IFRS in the Appendix. We have also produced a series of brochures for specific industry groups which go into the accounting affected. However, some of the issues that will be common to many companies, irrespective of industry are as follows:

## Presentation

The FRSME uses different names for the primary statements with different terminology for line items within them. For example, the balance sheet is known as a statement of financial position, whilst stocks are referred to as inventory. Similarly the profit and loss account is referred to as the income statement. Although these differences are really only cosmetic, companies might need to find a way to communicate to users in a way they can understand why the accounts have a different feel and explain the new terminology used. In addition, in the first year of implementation, preparers may need to spend time reformatting the accounts for revised presentation.

## Owner occupied property

The FRSME does not permit a policy of revaluation for owner-occupied property. Instead, all such properties must be accounted for at depreciated cost.

For groups that operate an opco / propco structure, the group company which owns the properties (propco) would, in its own accounts, need to account for the properties it rents to the operating companies (opco) as investment property even though in the group accounts the properties would still be considered as owner-occupied. This would result in property revaluations recognised in the propco's individual accounts being reversed on consolidation.

For property that is partially occupied for a company's own use and partially rented out to other companies, the FRSME requires that the portion not occupied by the reporting company is accounted for as investment property.

## Accounting for investment property

Gains and losses on measuring investment property are recorded in the income statement rather than reserves. However, UK law still requires a separate revaluation reserve, so after showing these movements in the income statement companies will need to make transfers from the profit and loss reserve to the revaluation reserve.

The FRSME does give an exemption on grounds of "undue cost or effort" from having to measure investment property at fair value permitting them instead to be measured at depreciated cost.

The need to account for assets and liabilities in a particular way unless it causes "undue cost or effort" crops up several times in the FRSME and it is impossible to say at this stage how and when entities would make use of such relief, and therefore what would become generally accepted accounting practice. Suffice to say that in the context of investment property we would be surprised if investment property groups did take advantage of the exemption on grounds of undue cost or effort. However, groups with an opco / propco structure in place might look to take advantage of such exemption to avoid the complexity of having to reverse on consolidation any revaluation gains and losses that would otherwise need to be recognised in propco's individual accounts.

## Financial instruments

Although most companies do not have complex financial instruments, a number will have taken out interest rate swaps or caps to manage the cash flow risk attaching to their variable rate loan facilities, or foreign exchange contracts used to hedge exchange rate risk on overseas purchase or sales.

Under the FRSME all such derivatives are recognised in the balance sheet at fair value. Changes in fair value would be recognised in the income statement unless the company chooses to implement systems and processes designed to achieve what is known as "hedge accounting". Where hedge accounting is applied, the derivative is still measured at fair value in the balance sheet but the unpredictable and potentially volatile movements in fair value are recognised outside profit or loss, in the Statement of Other Comprehensive Income (SOCl). Fortunately, the processes and procedures that need to be put in place qualify for hedge accounting are less onerous than those in full IFRS, but nonetheless they will still pose a challenge to those choosing to apply them.

There could also be complications for loans at off market rates of interest (eg shareholder loans or intercompany balances). Unless repayable on demand they would need to be discounted to fair value on initial recognition with interest imputed on the balance until repaid.

## Business combinations

The FRSME introduces the following key differences for business combinations:

- Merger accounting is not allowed – one entity must be identified as the acquirer and the other as the acquiree
- The identified intangibles of the acquiree must be accounted for separately from goodwill, measured initially at their fair value on the date of the acquisition
- Residual goodwill has a presumed useful economic life of five years.

## Deferred tax

The accounting for deferred tax in the FRSME is identical to full IFRS. Areas which are likely to give rise to differences in the accounting include:

- Business combinations, specifically as a result of more intangibles being recognised separately from goodwill
- Revaluation of investment property
- The potential tax payable in the future where rollover relief has been claimed
- Inclusion of financial instruments at fair value
- The measurement of deferred tax on share options
- The elimination on consolidation of unrealised profits of companies in different tax jurisdictions.

## Other

Other notable areas of accounting differences include:

- Borrowing costs - the FRSME does not permit the capitalisation of interest on borrowings used to fund the construction of assets
- Research and development costs – the FRSME does not permit the capitalisation of costs incurred on the development of new products.

- Government grants are recorded as income in full on receipt in the FRSME where the conditions for receipt of the grant have been met. Thus, unlike current UK GAAP, income from funding received for property, plant and equipment is not matched to the depreciation charge on those assets
- In group accounts the share of losses of associates and joint ventures are not recognised where they exceed the cost of the investment
- The FRSME requires that foreign currency intercompany loans are retranslated at spot rate in individual accounts, whereas under current UK GAAP such balances are often retranslated at historic rate when the loans are considered as permanent as equity
- The FRSME requires the cumulative foreign currency gains and losses that have arisen on the retranslation of overseas subsidiaries to be tracked in a separate reserve. Under UK GAAP such amounts are not required to be tracked and so are often subsumed within profit and loss reserves.

Interestingly, the accounting under full IFRS is often different to the above. A summary analysis of the differences between current UK GAAP, the FRSME and full IFRS is given in the appendix.

### Disclosure

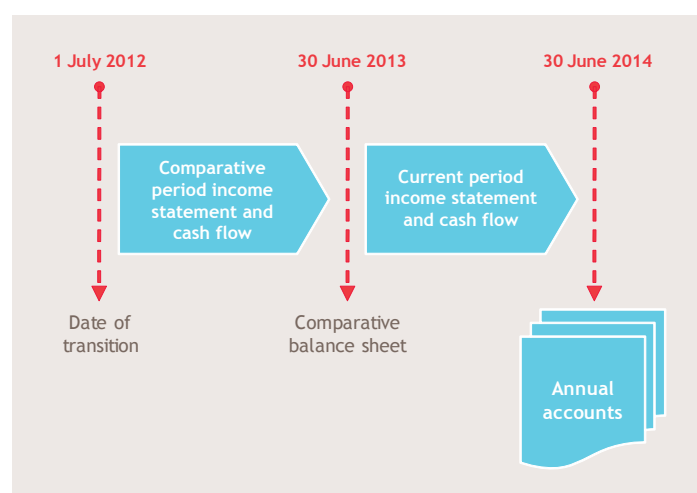
Although the disclosure requirements of the FRSME are less onerous than those in current UK GAAP, areas which would give rise to additional disclosure are:

- **Related parties** – the exemption given to wholly owned companies from reporting transactions with other members of the same group is removed
- **Remuneration disclosures** – certain remuneration details are required of "key management personnel", which potentially could be a wider group of people than statutory directors, particularly in the accounts of subsidiaries with only one or two directors
- **Lessors** – similar to the disclosure requirements for lessees discussed above, a maturity analysis of the total rentals receivable under leases is required, rather than just the amount of rental income recognised in the profit and loss account in the period.

## ▶ WHEN WOULD THE PROPOSALS COME INTO FORCE?

The ASB have set a deadline for responses to their proposals by 30 April 2011. This is with a view to confirming the introduction of the above regime by the end of 2011 with an anticipated effective date of periods beginning on or after 1 July 2013. The first companies to be affected would therefore be those with a year end of 30 June 2014, who are faced with the timeline shown here.

The important point is that in order to be able to prepare a comparative profit and loss account and cash flow in the first financial statements affected it will be necessary to prepare a balance sheet two years prior to this date, ie the date of transition.



## ▶ COMMERCIAL AND PRACTICAL CONSIDERATIONS

There are a number of commercial and practical considerations to consider if the ASB's proposals do come to fruition. Some of these are outlined below.

### Which tier?

The first decision to make is which tier or sub-tier the group or company falls in and whether there is any merit in trading up to a higher tier. The decision reached will have significant implications for the accounting to be applied across a wide range of transactions and the amount of disclosure to be given. Furthermore, it could also impact the extent to which the financial statements would be comparable with other companies in the same sector.

### Training needs

Finance teams will need to be trained in the new rules applicable to the accounting framework adopted. Systems will also need to be put in place to ensure that, for consolidation purposes, the right information is collected by group accountants.

For larger complex groups where, for whatever reason, group companies end up applying different frameworks to each other or to rules applied by the group, organisations will need to consider whether the responsibility for reconciling entity numbers to the rules applied in the consolidated financial statements reporting lie with entity or group accountants. The decision made will have repercussions for the training requirement.

### Tax Implications

There will clearly be a potential impact (positive or negative) on a company's current tax liability if reported profit changes as the result of new accounting rules. It will also be very important to revisit tax structures put in place that were dependent on current UK GAAP to see if the accounting would change on transition to the FRSME (or full IFRS if adopting the rules applicable to publicly accountable companies in tier 1).

### Loan covenants

If loan covenants are set by reference to GAAP amounts in either audited financial statements or management accounts it will be necessary to consider whether the new regime will adversely affect a company's ability to meet those loan covenants. In the current economic climate there is the risk that the banks will use any opportunity to renegotiate loan repayment terms based on breaches to loan covenants that arise purely because of notional changes to the underlying method of financial reporting.

### Profit-related contracts

Companies may have entered into contracts where settlement of a liability is driven by the company's own profitability or the settlement of an asset is driven by the profitability of a third party. Typical examples include profit-related bonuses payable to employees and amounts payable or receivable on the purchase and sale of businesses that are the subject of an earn-out. If the company's or counterparty's profit is affected by the introduction of new rules, this could have an impact on those payables and receivables.

### Distributable profits

The amount of a UK company's distributable profits is, broadly speaking, equal to the excess of the book value of its assets over its liabilities and non-distributable reserves. If the change in accounting rules impacts on the recognition or measurement of a company's assets or liabilities, this will in turn impact its ability to make dividend payments.

Furthermore there may be additional systems needs as IFRS will result in certain gains and losses being included in the income statement even though not realised, and therefore would not be available for distribution (eg gains on revaluing investment properties).

### Exemptions from full retrospective application

The basic principle is that comparatives need to be presented in accordance with the applicable framework. As noted above, the first balance sheet date for which numbers are required in accordance with the new regime would be two years prior to the first statutory accounts so that a comparative income statement can be presented in those accounts.

However, various exemptions and exceptions from full retrospective application are available in the FRSME. The key reliefs are:

- Business combinations effected before the date of transition do not need to be restated
- Certain assets can be measured at fair value on the date of transition and used as deemed cost. Additionally, a previous UK GAAP valuation of certain assets at the date of transition can be used as deemed cost
- Deferred tax need not be recognised on temporary differences as at the date of transition if it would involve 'undue cost or effort'.

Companies would need to consider the extent to which they take advantage of these reliefs.

## ▶ FUTURE DEVELOPMENTS

### Potential future developments?

The IASB have indicated that they intend to update the IFRS for SMEs every three years where appropriate to reflect changes made to full IFRS. In order to maintain its alignment with standards issued by the IASB it is difficult to envisage situations where the UK's ASB would not in turn update the FRSME for changes made by the IASB to the IFRS for SMEs.

A future change to tier 1 accounting that is being considered that could therefore make its way into FRSME is the removal of the distinction between finance and operating leases. Such a move would result in all leased assets and the liability to make lease payments coming on balance sheet. Given that almost all companies lease assets of some description, be that land and buildings or office equipment, few companies will be unaffected by these proposals. The technical accounting and operational impact could be profound. This specific issue was addressed in our publication *A new lease of life you could do without?* and is available from the BDO website.

## ▶ FINAL THOUGHTS

The proposals to remove UK GAAP with the three-tier framework outlined above could provide a significant challenge to many organisations operating in various sectors. It is **essential** that companies engage with the ASB's consultation, in particular giving their opinion as to the cost-benefit trade-off that would arise, by the 30 April 2011 deadline. Failure to respond is likely to be inferred as one of ambivalence or tacit agreement to the proposals.

As ever, if you have any queries arising from this publication or want to consider further the impact these proposals would have on your company's financial reporting, please do not hesitate to get in touch with your usual BDO contact.



# ▶ APPENDIX

## SUMMARY OF DIFFERENCES BETWEEN CURRENT UK GAAP, THE FRSE AND FULL IFRS



Key:

- high significance
- medium significance
- low significance

Topic	Current UK GAAP	Proposed UK GAAP (FRSE)	Full IFRS
<span style="color: orange;">●</span> <b>Primary statements</b>	<p>Profit and loss account.</p> <p>Statement of Total Recognised Gains and Losses ('STRGL').</p> <p>Note of historical profits and losses.</p> <p>Balance Sheet.</p> <p>Reconciliation of Movement in Shareholders' Funds (presented as either a primary statement or a note).</p> <p>Cash Flow Statement – cash flows categorised into potentially nine separate headings.</p>	<p>Income statement.</p> <p>Statement of Other Comprehensive Income. May be combined with income statement to show a single Statement of Comprehensive Income.</p> <p>No equivalent.</p> <p>Statement of Financial Position.</p> <p>Statement of Changes in Equity. If certain conditions are met may be combined with Statement of Comprehensive Income.</p> <p>Statement of Cash Flows – cash flows classified as either operating, investing or financing.</p>	<p>Income statement.</p> <p>Statement of Other Comprehensive Income. May be combined with income statement to show a single Statement of Comprehensive Income.</p> <p>No equivalent.</p> <p>Statement of Financial Position.</p> <p>Statement of Changes in Equity.</p> <p>Statement of Cash Flows – cash flows classified as either operating, investing or financing.</p>
<span style="color: red;">●</span> <b>Volume of disclosures</b>	More than FRSE but less than full IFRS.	Fewest.	Extensive.
<span style="color: teal;">●</span> <b>Consolidated financial statements</b>	Exemptions based on Companies Act 2006 rules.	Exemptions based on Companies Act 2006 rules.	No exemptions for ultimate parent companies. 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.
<span style="color: orange;">●</span> <b>Prior year adjustments</b>	<p>Prior year adjustment required for fundamental errors, which is generally understood to be a higher threshold than a material error.</p> <p>No requirements for a third balance sheet where prior year adjustments are made.</p>	<p>Prior year adjustments required for material errors.</p> <p>No requirements for a third statement of financial position where prior year adjustments are made.</p>	<p>Prior year adjustments required for material errors.</p> <p>Requires a third statement of financial position to be presented where prior year adjustments are made.</p>

Topic	Current UK GAAP	Proposed UK GAAP (FRSME)	Full IFRS
● <b>Financial instruments</b>	<p>For private companies, FRS 4 and FRS 25 dealing broadly with the accounting for debt. Accounting for other financial instruments determined by convention only unless, in rare circumstances, a company has voluntarily applied FRS 26.</p> <p>Disclosures driven by Companies Act 2006 requirements (NB disclosures also required by FRS 13 but very few entities fall within the scope of this standard).</p> <p>N/A</p>	<p>Covers many types of financial instruments setting out requirements for those to be measured at amortised cost and those to be measured at fair value.</p> <p>Some disclosures.</p> <p>N/A</p>	<p>Distinguishes between four categories of financial assets and two categories of financial liabilities, with each having their own recognition and measurement rules.</p> <p>Extensive disclosure requirements.</p> <p>Current standard on financial instruments (IAS 39) being gradually replaced with revised rules in an attempt to simplify the accounting, although unlikely to be effective prior to 2013.</p>
● <b>Investments in Associates (group accounts)</b>	<p>Equity accounting.</p> <p>Share of all losses recognised.</p>	<p>Equity accounting.</p> <p>No recognition of share of losses in excess of cost of investment.</p>	<p>Equity accounting.</p> <p>No recognition of share of losses in excess of cost of investment</p>
● <b>Investments in Joint Ventures (group accounts)</b>	<p>Distinction made between JVs and JANEs.</p> <p>Classification as JV where the substance of the arrangement constitutes a separate trade, irrespective of whether a separate legal entity is created.</p> <p>Gross equity accounting required for JVs.</p> <p>Share of all losses recognised.</p>	<p>Distinction made between jointly controlled entities, jointly controlled assets and jointly controlled operations.</p> <p>Classification of jointly controlled entity driven by whether the arrangement involves the creation of a separate legal entity.</p> <p>Equity accounting required for jointly controlled entities.</p> <p>No recognition of share of losses in excess of cost of investment.</p>	<p>Same as FRSME, but with more specific detail around the precise accounting.</p> <p>Classification of jointly controlled entity driven by whether the arrangement involves the creation of a separate legal entity.</p> <p>For jointly controlled entities, choice of equity accounting or proportional consolidation (same method to be applied to all such interests).</p> <p>Where equity model is chosen, no recognition of share of losses in excess of cost of investment.</p>
● <b>Investment property</b>	<p>Gains and losses recognised in reserves.</p> <p>Definition of investment property excludes properties leased to other members of the same group.</p> <p>For leasehold assets, usually account for just the net leasehold interest.</p>	<p>Gains and losses recognised in income statement.</p> <p>Definition of investment property includes properties leased to other members of the same group.</p> <p>Interests in leasehold property to account for obligations payable separately.</p>	<p>Gains and losses recognised in income statement.</p> <p>Definition of investment property includes properties leased to other members of the same group.</p> <p>Interests in leasehold property to account for obligations payable separately.</p>
● <b>Property, plant and equipment</b>	<p>Revaluations permitted.</p> <p>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.</p>	<p>Revaluations not permitted.</p> <p>Split accounting required for mixed use properties.</p>	<p>Revaluations permitted.</p> <p>Split accounting required for mixed use properties.</p>
● <b>Intangible assets</b>	<p>Choice of capitalising or writing off development costs.</p> <p>Software costs classified as tangible fixed assets.</p>	<p>Capitalisation of development costs not permitted.</p> <p>Classification of software costs not addressed.</p>	<p>Development costs must be capitalised.</p> <p>Software costs classified as intangible assets.</p>

Topic	Current UK GAAP	Proposed UK GAAP (FRSME)	Full IFRS
● Business combinations and goodwill	<p>Merger accounting permitted if certain criteria are met.</p> <p>Intangible assets rarely recognised separately from goodwill on a business combination.</p> <p>Direct costs capitalised as part of the cost of acquisition.</p> <p>Goodwill amortised, with assumed UEL of 20 years.</p> <p>Negative goodwill deferred in balance sheet and released to income statement to match the depreciation or sale of the non-monetary assets acquired.</p>	<p>Merger accounting not permitted.</p> <p>Identified intangibles on a business combination to be separately accounted for and initially recognised at fair value.</p> <p>Direct costs capitalised as part of the cost of acquisition.</p> <p>Goodwill amortised, with assumed UEL of 5 years.</p> <p>Negative goodwill deferred in balance sheet and released to income statement to match the depreciation of the non-monetary assets acquired.</p>	<p>Merger accounting not permitted.</p> <p>Identified intangibles on a business combination to be separately accounted for and initially recognised at fair value.</p> <p>All costs of acquisition written off as incurred.</p> <p>Goodwill not amortised, rather subject to formal annual impairment reviews.</p> <p>Negative goodwill credited in full to the income statement.</p>
● Leases	<p>Lease incentives spread over the period to first rent review.</p> <p>Disclosure required of the annual lease commitment.</p>	<p>Accounting for lease incentives not addressed.</p> <p>Disclosure required of the total future minimum lease commitment.</p>	<p>Leases incentives spread over the lease period.</p> <p>Disclosure required of the total future minimum lease commitment.</p>
● Government grants	<p>Recognition of grant income in P&amp;L matched to the related expense.</p>	<p>Grants recognised in the income statement in full once all conditions for their receipt have been met, irrespective of when the related expenditure is recognised in the income statement.</p>	<p>Recognition of grant income in income statement matched to the related expense.</p>
● Borrowing costs	<p>Choice of capitalising or writing off borrowing costs during period it takes to make or construct an asset.</p>	<p>Capitalisation of borrowing costs not permitted.</p>	<p>Capitalisation of borrowing costs required during period it takes to make or construct a qualifying asset.</p>
● Share-based payment	<p>Expense calculated by reference to option pricing models for awards made to employees.</p>	<p>Expense may be based on directors' valuation of options granted if use of option pricing models would cause 'undue cost or effort'.</p>	<p>Expense calculated by reference to option pricing models for awards made to employees.</p>
● Impairment of assets	<p>Reversal of goodwill impairment permitted.</p>	<p>Reversal of goodwill impairment permitted.</p>	<p>Reversal of goodwill impairment not permitted.</p>
● Employee benefits	<p>Holiday pay generally not accounted for.</p> <p>Actuarial gains and losses recognised in the statement of total recognised gains and losses.</p> <p>Projected unit credit method to be applied in full in measurement of the surplus or deficit.</p>	<p>Holiday pay to be recognised as an accrual or prepayment as appropriate.</p> <p>Actuarial gains and losses recognised in other comprehensive income.</p> <p>Simplifications to projected unit credit method of measuring defined benefit liabilities on grounds of 'undue cost or effort'.</p>	<p>Holiday pay to be recognised as an accrual or prepayment as appropriate.</p> <p>Actuarial gains and losses recognised in other comprehensive income. Alternatively, a mixed method of deferral and non-recognition of actuarial gains and losses is permitted in which case any such gains and losses are recognised in the income statement.</p> <p>Projected unit credit method to be applied in full in measurement of the surplus or deficit.</p>
● Deferred tax	<p>Recognised on the basis of timing differences.</p>	<p>Recognised on the basis of temporary differences.</p>	<p>Recognised on the basis of temporary differences.</p>

Topic	Current UK GAAP	Proposed UK GAAP (FRSME)	Full IFRS
 Foreign currency	No requirement to keeping track of cumulative exchange gains and losses arising on retranslation of foreign entities.	Cumulative exchange gains and losses arising on retranslation of foreign entities to be presented as a separate component of equity.	Cumulative exchange gains and losses arising on retranslation of foreign entities to be presented as a separate component of equity.
	No recycling through profit and loss account of exchange differences arising on the retranslation of foreign entities.	No recycling through income statement of exchange differences arising on the retranslation of foreign entities.	On disposal of a foreign entity, the related cumulative exchanges differences are recycled through the income statement in determining the profit or loss on disposal.
	Intercompany loans are sometimes retranslated at historic rate on grounds of being as permanent as equity.	All intercompany loans retranslated at spot rates.	All intercompany loans retranslated at spot rates.
 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 disclosure transactions between wholly owned entities of a group.	No exemption from disclosing transactions in an entity's individual financial statements between itself and other entities within the same group.	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 companies legislation.	Details of key management remuneration must be disclosed. Key management may be a wider body of employees than just statutory directors.	Details of key management remuneration must be disclosed. Key management may be a wider body of employees than just statutory directors.

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