

Appendix 3.04.7 UK GAAP

UK GAAP (Generally accepted accounting practice)

Generally Accepted Accounting Practice in the UK (UK GAAP) is the body of accounting standards and other guidance published by the UK's FRC – shortly to be replaced by ARGA. The financial reporting framework in the UK is effective from 1 January 2015. For a more complete description see:

<https://www.icaew.com/technical/financial-reporting/uk-gaap>

(Financial Reporting Standard 100)

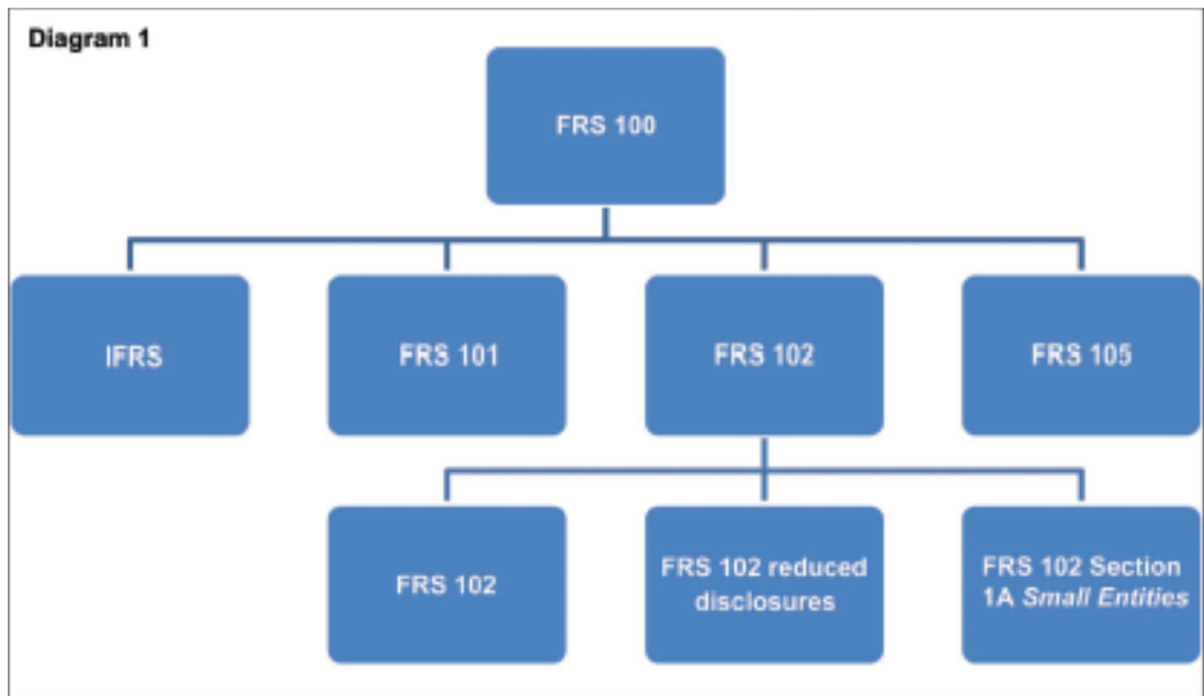
Company law recognises two financial reporting frameworks – IFRS and UK and Ireland GAAP.

Publicly listed companies are required to apply IFRS in the preparation of their group accounts but may choose between IFRS and UK and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a free choice between the two frameworks.

The financial reporting requirements of each standard get progressively more complex and comprehensive the further up the suite of standards you go. The increase in complexity correlates to the increasing size and complexity of the entities that are most likely to apply a given standard. In all cases, an entity may choose to opt up to a more comprehensive regime.

The UK and Ireland GAAP reporting framework is made up of five regimes, three of which are available within FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The other two are FRS 101 Reduced Disclosure Framework and FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime.

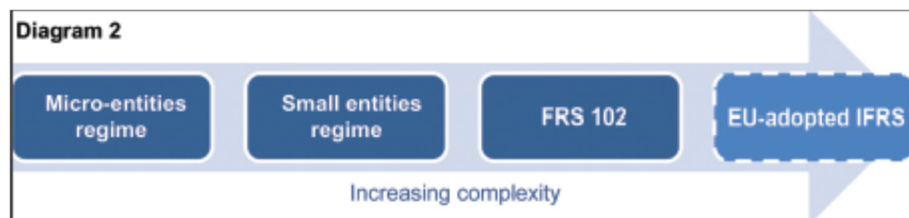
FRS 100 Application of Financial Reporting Requirements sets out the overall framework, which can be illustrated as follows:



Source: <https://www.frc.org.uk/getattachment/baa79d97-8bf1-49e3-af14-f0dfd7f1fd7c/Overview-WEB-READY.pdf>

Which FRS should be used?

Micro entities use FRS 105. Small entities use the small entities section of FRS 102. Larger companies not listed can use FRS 102. PIEs and listed companies/groups have to use EU-adopted IFRS. The diagram below shows the increasing complexity of the UK standards. The definitions of the entities are given earlier in this sub-chapter.



Source: <https://www.frc.org.uk/getattachment/baa79d97-8bf1-49e3-af14-f0dfd7f1fdcf/Overview-WEB-READY.pdf>

IFRS. All domestic companies or groups whose securities trade in a public market are required to use IFRS Standards as adopted by the EU in their consolidated financial statements.

FRS 101. The reduced disclosure framework FRS 101 allows groups reporting under International Financial Reporting Standards (IFRS) to have their subsidiaries report using the same recognition and measurement principles, but without the effort involved in complying with exhaustive IFRS disclosure requirements. The usual tradition is that the consolidated group accounts are prepared under the EU-adopted IFRS and the parent company and some subsidiaries (if necessary) are reported under FRS 101, the reduced disclosure framework.

FRS 102. The new UK GAAP standard is FRS 102, 'The financial reporting standard applicable in the UK and Republic of Ireland'. It is based on the IFRS for SMEs, a simplified IFRS standard developed by the IASB for non-publicly accountable entities. FRS 102 is a single reporting standard, which replaces all others. FRS 102 has amended the rules of the IASB's standard to:

- Comply with the Companies Act
- Allow additional accounting policy choices
- Further modification by the FRC
- Further granulation empowered by the department of Business (currently BEIS) and the government of the day.

There were a number of key differences between the old UK GAAP and FRS 102. Topics where the accounting treatment under FRS 102 is substantially different from existing UK GAAP in a number of respects, including accounting requirements for goodwill and intangible assets, group defined benefit schemes and deferred tax. It also contains extensive guidance on accounting for financial instruments, including derivatives.

FRS 105. The Financial Reporting Standard applicable to the Micro-entities Regime is an accounting standard intended for financial statements of companies which qualify for the micro-entities regime.

Table 1: UK and Ireland GAAP					
Framework	Micro-entities regime	Small entities regime	FRS 102	Reduced disclosure framework (FRS 101)	Reduced disclosures for subsidiaries and ultimate parents (FRS 102)
Related accounting standard(s)	FRS 105	Section 1A <i>Small Entities</i> of FRS 102	FRS 102	FRS 101	Paragraphs 1.8 to 1.13 of FRS 102

Source: <https://www.frc.org.uk/getattachment/baa79d97-8bf1-49e3-af14-f0dfd7f1fdcf/Overview-WEB-READY.pdf>

Smaller entities have a choice between three core UK GAAP regimes subject to meeting relevant criteria:

- the micro-entities regime (FRS 105);
- the small entities regime (Section 1A Small Entities of FRS 102); and
- FRS 102.

Entities that are part of a group may apply either of the reduced disclosure regimes

Based on the International Financial Reporting Standard for Small-Medium Entities (IFRS for SMEs), FRS 102 brings about a simplified reporting regime for entities that will fall under its scope as well as introducing more up-to-date and relevant accounting requirements.