FRS 102 – Editorial amendments and clarification statements

This document sets out all editorial amendments and clarification statements issued by the FRC to date in relation to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The document is organised by section.

Section 1 Scope

Issued 2 August 2013

Clarification statement on the early application of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland by entities within the scope of a SORP

Paragraph 1.14 of FRS 102 permits early application of FRS 102 for accounting periods ending on or after 31 December 2012, except that where an entity is within the scope of a SORP early application is only permitted where that does not conflict with the requirements of a current SORP or legal requirement for the preparation of financial statements.

All SORP-making bodies are working to update their SORPs for FRS 102, but current SORPs, despite being written in the context of the accounting standards that will be superseded by FRS 102, may not necessarily conflict with FRS 102. In considering whether a current SORP conflicts with FRS 102 an entity should have regard to the overall effect in practice.

In particular an entity should consider whether or not the recognition and measurement requirements of FRS 102 are consistent with a current SORP. For example if a current SORP is silent on a topic, accounting policies determined in accordance with FRS 102 should not conflict with the current SORP. Similarly if a current SORP uses different terminology to express the same recognition and measurement concepts as required by FRS 102, compliance with FRS 102 should not automatically lead to non-compliance with that SORP.

In relation to disclosure requirements, where a SORP requires specific disclosures that are not required by FRS 102, additional disclosure can be provided in addition to that required by FRS 102 in order to meet both requirements.

Nevertheless, entities within the scope of a SORP will need to consider whether a legal or regulatory requirement prohibits the early application of FRS 102.

Section 11 Basic Financial Instruments

Issued 19 March 2014 (updated 7 August 2014)

Editorial amendment regarding presentation requirements for financial instruments when an entity chooses to apply the recognition and measurement provisions of IAS 39 or IFRS 9 and/or IAS 39

Paragraph 11.2 is amended as follows (inserted text is underlined and deleted text is struck through):

An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the **recognition** and **measurement** provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU); ~~and~~ the disclosure requirements of Sections 11 and 12; and the presentation requirements of paragraphs 11.38A or 12.25A[1]; or

(c) the recognition and measurement provisions of IFRS 9 Financial Instruments and/or IAS 39 (as amended following the publication of IFRS 9); ~~and~~ the disclosure requirements of Sections 11 and 12; and the presentation requirements of paragraphs 11.38A or 12.25A[1];

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an **accounting policy** choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.

[1:] Following the publication of *Amendments to FRS 102 – Basic financial instruments and Hedge accounting* in July 2014 the reference to paragraph 12.25A of FRS 102 should be read as reference to paragraph 12.25B of FRS 102.

Section 12 Other Financial Instruments Issues

Issued 17 September 2014

Editorial amendment regarding Examples of hedge accounting: Example 1

The CU amount for the settlement of the purchase of the non-financial asset as presented in Note B and the related accounting entry is incorrect. The correct CU amount is CU1,112,400. The corrected extracts from Example 1 are as follows:

Note B: For illustrative purposes the accounting entry for the purchase of the non-financial asset at the applicable spot rate of FC2.16:CU for CU~~1,080,000~~1,112,400 (settled in cash) is shown below.

Accounting entries:

Ref		Debit	Credit
(B)	Property, plant and equipment (PP&E)	CU~~10,080,000~~1,112,400	
	Cash		CU~~10,080,000~~1,112,400

Issued 19 March 2014 (updated 7 August 2014)

Editorial amendment regarding presentation requirements for financial instruments when an entity chooses to apply the recognition and measurement provisions of IAS 39 or IFRS 9 and/or IAS 39

Paragraph 12.2 is amended as follows (inserted text is underlined and deleted text is struck through):

An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the **recognition** and **measurement** provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU); ~~and~~ the disclosure requirements of Sections 11 and 12; and the presentation requirements of paragraphs 11.38A or 12.25A[1]; or

(c) the recognition and measurement provisions of IFRS 9 Financial Instruments and/or IAS 39 (as amended following the publication of IFRS 9); ~~and~~ the disclosure requirements of Sections 11 and 12; and the presentation requirements of paragraphs 11.38A or 12.25A[1];

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an **accounting policy** choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.

1: Following the publication of *Amendments to FRS 102 – Basic financial instruments and Hedge accounting* in July 2014 the reference to paragraph 12.25A of FRS 102 should be read as reference to paragraph 12.25B of FRS 102.

Issued 12 November 2013

Clarification statement in relation to net investment hedges of foreign operations that are branches

It has been brought to the FRC's attention that, in relation to net investment hedges of foreign operations, there appears to be an inconsistency between FRS 102 *The Financial Reporting*

Standard applicable in the UK and Republic of Ireland and the Accounting Council's Advice to the FRC, and that this could potentially lead to confusion.

Paragraph 12.17 of FRS 102 permits entities to hedge account for the foreign exchange rate risk in net investments in foreign operations. The definition of foreign operations includes foreign branches however the final sentence of paragraph 62 of the Accounting Council's Advice appears to contradict this by stating that hedge accounting of a net investment in a foreign operation should not be permitted in the separate financial statements of a parent.

The final sentence of the Accounting Council's Advice is referring to foreign operations that are separate legal entities only and FRS 102 does permit entities to hedge account for net investments in foreign branches in the separate financial statements of a parent.

Section 29 Income Tax

Issued 12 November 2013

Clarification statement in relation to deferred tax arising on a business combination

Paragraph 29.11 of FRS 102 requires an entity to recognise a deferred tax asset or liability for the difference between the amount that can be deducted for tax for an asset (other than goodwill) that is acquired in a business combination and the value at which it is recognised.

The phrase 'the amount that can be deducted for tax' is not a defined term in FRS 102 and it has been brought to the FRC's attention that the meaning of this phrase would benefit from clarification.

In applying this paragraph an entity should consider the manner in which it expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. This assessment should include consideration of all taxes, including operating taxes and taxes arising from the sale of the item, if appropriate.

Section 35 Transition to this FRS

Issued 19 March 2014

Editorial amendment regarding transitional exemptions in relation to accounting for service concession arrangements

Paragraph 35.10(i) is amended as follows (inserted text is underlined and deleted text is struck through):

Service concession arrangements – Accounting by operators

A first-time adopter is not required to apply paragraphs 34.12~~E~~<u>I</u> to 34.16A to **service concession arrangements** that were entered into before the date of transition to this FRS. Such service concession arrangements shall continue to be accounted for using the same accounting policies being applied at the date of transition to this FRS.