Credit unions must to change to FRS 102 for their September 2016 year end. The change from old GAAP to FRS 102 requires that the new accounting be applied to both the 2016 and the 2015 year end. To recalculate the 2015 comparison requires that the opening balance sheet at 1 October 2014 be recalculated under FRS 102 as well. The Central Bank has amend their on line financial statements filing system to allow for restatement of opening balances on conversion to FRS 102. The statutory reserve has been abolished for 2016 and replaced by a regulatory reserve and a further non – distributable risk/operational reserve is now required. FRS 102 is more accrual than prudent based and in most credit unions should increase the level of retained earnings; retained earnings that may be required to fund the additional risk and other reserves.

There are five accounting changes that are required to be made, although not all five will apply to all credit unions. The changes are to include a holiday pay accrual; to accrue for the past service element of the defined benefit pension scheme payments; to calculate the bad debts provision using FRS 102 criteria; and the recalculation & valuation of investments to comply with FRS 102. Credit Unions that are using the cash model for accounting for interest income will also need to change to the accrual method, something that the Registrar seems to have agreed to as they have included "Loan Interest Income Receivable" as a field in the annual return. There are additional disclosures and these have been illustrated at www.accaglobal.com/cu the most controversial of which, from a credit union perspective, is to require disclosure of key management remuneration.

Holiday pay accrual

An estimate of the cost of accrued but untaken holiday pay needs to be calculated at 1 October 2014 and at 30 September 2015 and 2016. For illustration I will assume that the amounts are €30,000, €35,000 and €20,000 respectfully.

The correction for the comparison column for 2015 is

Dr wages	5,000 (35,000-30,000)
Cr accruals	35,000
Dr Opening retained earnings	30,000

The correction for 2016 is

Cr wages	15,000 (35,000-20,000)
Dr accruals	15,000

Where the amount is immaterial then no adjustment is required. The €30,000 adjustment to opening reserves will be one of the reconciliations disclosures that need to be made on first conversion to FRS 102.

The defined benefit (DB) pension accrual

Some credit unions participate in a DB group pension scheme and while FRS 102 allows group schemes such as these to be accounted for as defined contribution schemes, the standard does require that where a credit union has made a commitment to eliminate a past service deficit that this commitment be accounted for. In summary, the actuaries in the group scheme that the credit unions are members of requires that for the 10 years ended in 2019, credit unions participating in the scheme need to contribute an additional 5.5% of pensionable salary for staff in the DB scheme. As an example, assume that 5.5% of pensionable salary for all staff in a credit union in the DB scheme amounts to €20,000 a year and for simplicity assume that no salary increases are expected to be paid before the end of 2019. At 1 October 2014 the credit union had a commitment to pay €20,000 X 4 years or €80,000. At the end of 2015 the amount owed was €60,000 and at the end of 2016 the amount owed was €40,000.

The correction for the comparison column for 2015 is

Cr wages	20,000
Cr accruals	60,000
Dr opening retained earnings	80,000

The correction for 2016 is

Cr wages	20,000
Dr accruals	20,000

The €80,000 adjustment to opening reserves will be one of the reconciliations disclosures that need to be made on first conversion to FRS 102.

Bad debts

FRS 102 does not allow general reserves for bad debts. Where a credit union has a general reserve then it needs to be eliminated retrospectively as of 1 October 2014. FRS 102 does allow an Incurred But Not Reported (IBNR) bad debt reserve. IBNR is very much like a general reserve but is based on underlying evidence such as past experience of bad debts or linked to delinquency rather than some calculation based on worst case scenario and excessive prudence. It is usually the case that IBNR will produce a much lower bad debt provision than a general provision which many credit unions calculated under "Resolution 49" plus a round sum additional prudent amount. As an example suppose the calculation at 1 October 2014 were:

Bad debts	Old GAAP	FRS 102
Specific	500,000	500,000
General	1,500,000	nil
IBNR	Nil	300,000
Total	2,000,000	800,000

And assume the same calculation has been done for 2015 and 2016:

Bad debts	Old GAAP	FRS 102	
1 October 2014	2,000,000	800,000	(1.2m difference)
30 September 2015	1,500,000	700,000	
30 September 2016	n/a	650,000	

The correction for the comparison column for 2015 is

Dr loan book	1,300,000
Cr bad debts expense	100,000
Cr opening retained earnings	1,200,000

The correction for 2016 is

Dr loan book	50,000
Cr bad debt expense	50,000

IBNR requires judgement and it should be based on actual loan losses experienced in the past or expected in the future and should not be based on maximum expected amounts or overly pessimistic assumptions.

Investments

Credit unions have a very limited number of investments that they are allowed to hold. The vast majority of these investments are designated as simply investments by FRS 102 and the standard allows an effective choice of accounting of: amortised cost, fair value or held to maturity (HTM). The limited number of complex investments that a credit union might hold, have to be accounted for using fair value. HTM is only available up to 2019 at which time the choice will be amortised cost or fair value. The additional choices under FRS 102 are because of an allowable "opt out" from FRS 102 to use the accounting available under IAS 39 or IFRS 9.

Most credit unions invest in short dated Government and corporate bonds and term deposits. The accounting for such investments will not change under FRS 102: they were effectively at amortised cost which was the same as nominal value. However, long dated Government and corporate bonds may no longer use the so called "cost model" and will have to change to either amortised cost, fair value or held to maturity. Some credit unions expensed any premium on purchase of bonds at the date of acquisition and book any discount on purchase as income on maturity; this accounting will have to be restated retrospectively. A slide presentation, worked examples and example spread sheet workings for the conversion of cost model investments to FRS 102 are at www.accaglobal.com/cu . The examples include the journal adjustments to be made. Credit unions favour HTM as it allowed them to plan their income. After this option is withdrawn in 2019, the amortised cost option could introduce considerable fluctuation in accounting profits on these investments where the underlying product or bond has a long maturity. The way to avoid these fluctuations is to switch to shorter dated bonds after 2019.

Accrual accounting for income

Credit unions historically accounting for interest income on a cash receipts basis. The 2012 Act introduced specific requirements and FRS 102 also requires that income be accounted for on an accrual basis. Interest earned as at 30 September but not received until after September should be accounted for as income in September. The correction is retrospective. As an example, suppose that at 1 October 2014 the accrued interest earned but not received was €5,000 and at 30 September 2015: €6,000 and 30 September 2016: €7,000

The correction for the comparison column for 2015 is

Dr Debtors	6,000
Cr Income	1,000
Cr retained earnings	5,000

The correction for 2016 is

Dr debtors	1,000
Cr income	1,000

Other matters

There are a number of options on first conversion to FRS 102 in respect of the accounting for buildings. Buildings currently using a revaluation model may continue to use this model, or convert back to cost model or deem the current valuation to be cost. Where there is inherent capital gains tax liability from an upward valuation (credit unions are subject CGT notwithstanding that they are exempt from other taxes) FRS 102 requires that this must be provided for. The CGT needs to be calculated retrospectively and adjusted through opening retained earnings (and not as a Dr to revaluation reserve). Where the credit union always used the cost model, they may continue to do so or change to a revaluation model.

Merger accounting is not available under FRS 102 and therefore in the event of a transfer of engagement or merger, negative goodwill generally arises. However, as the goodwill arises as a result of a transaction with the owners of the credit union in their capacity as owners, the amount can be written off to retained earnings in the year of acquisition. More details on acquisition accounting for credit unions are on the ReBo web site.

Conclusion

The central Bank said that the conversion to FRS 102 is a serious risk for credit unions. The level of future engagement between the credit union and their supervisor will partially depend on how well they manage the conversion. The central bank said that they would issue guidance on the conversion to FRS 102 in the third quarter of 2016, but they have recently clarified that this will be very high level guidance and credit unions should not wait for this guidance before addressing the matter.