ACCA

ACCOUNTANTS FOR BUSINESS

The new UK GAAP: how would the numbers look?

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

www/accaglobal.com/accountants_business

The new UK GAAP – how would the numbers look?

A report on whether the IFRS for SMEs will affect the reported profits of UK companies

BACKGROUND

In August 2009, the UK Accounting Standards Board (ASB) issued proposals for comment outlining how accounting standards in the UK or UK Generally Accepted Accounting Practice (GAAP) might evolve and what they might look like in a few years' time. These proposals closely followed the publication by the International Accounting Standards Board (IASB) of *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs).[1]

ASB's proposals for financial reporting by UK companies are broadly that the existing UK accounting standards should be replaced by the IFRS for SMEs. The recommendation regarding replacement of the existing UK Financial Reporting Standard for Smaller Entities (FRSSE) was less clear-cut – FRSSE might be replaced, 'internationalised' or retained as it is for the foreseeable future. The proposals also mean that more companies (for example, any remaining listed companies, banks, building societies and credit unions) wo uld be required to apply full IFRS instead of UK standards. The future accounting standards applicable to not-for-profit entities (charities, universities and housing associations, for example) are also not as yet very clear either.

OBJECTIVE

The objective of this paper is to explore what differences the proposed changes could make to the reported numbers in the financial statements.

The companies most clearly affected would be those that are currently using full UK standards (FRSs and SSAPs), excluding those relatively few listed companies and financial institutions that are not already using IFRS. If companies currently using the FRSSE were also to be required to move, the number of companies affected would be greatly increased.

This paper focuses on differences that might affect reported profits and so potentially affect the tax payable as well. It tries where possible to identify whether the transition from using UK GAAP to using the new standard (IFRS for SMEs) would mean that reported profits would be larger or smaller, or whether recognition would tend to occur earlier or be deferred. It also considers the extent to which any of the changes in profits identified would affect tax payable (increased, decreased or recognised earlier or later). It does not consider the impact on the reported tax charge, which would of course reflect deferred tax charges as well as tax payable.

For tax purposes a change of accounting policy which gives rise to a prior period adjustment from one valid basis of accounting to another gives rise to 'adjustment income' (Schedule 22, FA 2002: Chapter 17, ITTOIA 2005).

1. A copy of *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* (IASB 2009) can be found at http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs.htm

ASSUMPTIONS AND EXCLUSIONS

The differences listed are based on a company that currently:

- uses full UK standards, but that is changing to IFRS for SMEs
- has to comply with UK company legislation
- has not opted to apply the 'financial instruments package' in current UK GAAP (the full FRS25, 26 and 29).

Therefore, for example, it does not primarily address those companies using the FRSSE, or not-for-profit organisations.

Also, this paper does not include the effects on those companies that might be required to move from UK standards to full IFRS. IFRS for SMEs is based in most areas on the principles of the accounting treatments in full IFRS, but not in all cases. There are some significant recognition and measurement differences between full IFRS and IFRS for SMEs.

The differences do not include presentational issues such as formats of the income statement and balance sheet, nor do they include the differences in the content of the cash flow statement, This paper does not deal with any new or reduced note disclosures that might be required. Its focus is on reported profits, not other changes in the financial statements. Items that might be purely balance sheet adjustments were not intended to be included; but, that said, not many changes to balance sheet numbers do not carry the potential to change reported profits as well.

DIFFERENCES IDENTIFIED

The differences are listed by reference to the paragraphs of the IFRS for SMEs (see Appendix 1 on page 4) and are set out in full in Appendix 2. Although the differences given are intended to be a reasonably complete list, the two sets of standards are differently worded; in some cases subtleties of wording can be significant and it is therefore difficult to ensure that all possible differences have been incorporated.

As can be seen from the list in the Appendix, the differences identified include those that are more or less clear cut and those that are more or less commonly arising. They include cases where:

- IFRS for SMEs would require a new treatment for an item
- it might be possible to account for an item differently because of new accounting options under IFRS
- an existing optional treatment under UK GAAP might no longer be possible, and the alternative treatment would be the only possible approach
- UK GAAP is currently not so definitive as IFRS for SMEs and so there might be less scope for different treatments
- IFRS for SMEs includes less definitive guidance and so there might be more scope for different treatments.

It is possible that the identified differences might be treated differently on adoption of IFRS for SMEs. Some might mean full restatement of the accounts based on a change of accounting policy. Others might be immaterial or be covered by transitional arrangements allowing for existing balances to be brought forward without restatement. In all cases the different treatments would apply going forward to future transactions.

There is no firm guidance in the ASB proposals about when these changes might come in (2012 was indicated) or the extent to which early adoption might be allowed.

MOST SIGNIFICANT DIFFERENCES AHEAD

The Appendix lists over 50 differences between IFRS for SMEs and UK GAAP and any of these may be significant to an individual company. Nonetheless, the following seem likely to be the most commonly arising significant differences.

- Investments in quoted shares will have to be stated at fair value with changes through profit for the year – tax not affected (11.14).
- Any derivatives (swaps, forward contracts, etc) will have to be at fair value and hedge accounting will be restricted and have to be documented – tax would be affected as it would follow the accounts treatment (12.8 and 12.17).
- It will be possible to account for associates and jointly controlled entities either at cost or fair value, in addition to the equity accounting method currently used – tax not affected (14.4 and 15.9).
- Investment properties, which currently have to be included at fair value with changes through the statement of recognised gains and losses (STRGL), would either have to be shown at fair value with changes through profit for the year or could, possibly, be shown at cost if reliable fair values cannot be obtained without undue cost and effort – tax not affected (16.7).
- Borrowing costs would always have to be expensed -and could not be capitalised into the cost of tangible fixed assets or inventory – tax would be affected as it would follow the accounts treatment (17.11).
- Property, plant and equipment would have to be stated at amortised cost and could no longer be stated at a revalued amount – tax not affected (17.15).
- The costs of developing new products and services could no longer be capitalised during the period of development but would have to be charged against profits as incurred – tax would be affected as it would follow the accounts treatment (18.14), and would continue to be subject to interaction with research and development tax credits where available.
- Goodwill and other intangible assets would have to be amortised over their useful lives (with a default period of 10 years) and could not be given an indefinite life, subject to writing down on an impairment-only basis – tax would be affected in some cases as it would follow the accounts treatment (18.19).
- Revenue recognition in IFRS for SMEs, although based on the same broad principles as UK GAAP, is differently worded and generally might permit later recognition of income and profits – tax would be affected as it would follow the accounts treatment (23.3).

Appendix 1: Main difference indicator by reference to the sections of the IFRS for SMEs

Appendix 2: Summary of differences between IFRS for SMEs and existing full UK standards

The analysis below assumes that the entity does not already apply FRS26 on the recognition and measurement of financial instruments. Reference to tax effects are to tax payable, without including any deferred tax changes.

CONSOLIDATED FINANCIAL STATEMENTS

IFRS for SME	Section 9, Consolidated and separate financial statements
UK GAAP	FRS2, Accounting for subsidiary undertakings

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
9.4	Consolidation boundary determined by control.	There are other definitions of subsidiaries, including entities where there is the actual exercise of dominant influence or that are managed on a unified basis.	IFRS for SMEs might not require the consolidation of all the subsidiaries currently included under FRS2. This may not be a very frequent case. Where it is the case, then any subsidiaries excluded would probably be accounted for as associates or joint ventures. Profit for the year (after minority interests) might not be that different, but all the lines above and the balance sheet would change.	Unlikely to be a significant issue because this refers to consolidated accounts, which are not generally used as the basis for taxation. For unincorporated businesses, however, tax would be on the share of profits and so the consolidation boundary could have an effect.
9.26	In separate financial statements, investments in subsidiaries, associates or JVs can be stated at fair value through P&L or at cost (subject to impairment).	FRS9 would allow the balance sheet amount to be either cost or fair value. But Companies Act (CA) alternative accounting rules would not allow FV with changes through P&L. The fair value rules would not be applicable to these sorts of investment.	If the option for fair value were taken up, profits would be different and tend to greater and to recognise gains earlier (ie before disposal). The use of this option might depend on amendments to the 4th Directive and the CA.	A difference in profit would have a consequent tax effect (tax follows the accounting treatment).

ACCOUNTING POLICIES, ESTIMATES AND ERRORS

IFRS for SME	Section 10, Accounting policies, estimates and errors
UK GAAP	FRS3, Reporting financial performance (part) FRS18, Accounting policies

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
10.4	When the IFRS for SMEs does not specifically address an issue, reference should be made to analogous cases and to the concepts and pervasive principles.	This might not be the same answer as under UK GAAP, where the selection of accounting policies would be based on the characteristics in FRS18 (but which are very similar to the pervasive principles in IFRS for SMEs).	A difference, if any, could affect profit.	Any difference might affect tax.
10.21	Errors are to be corrected by retrospective adjustment.	UK GAAP requires this treatment for 'fundamental errors' only.	More errors might be recognised by way of prior year restatement, and fewer therefore where the corrections are part of profit in the year in which they came to light.	The tax would follow the accounting treatment.

FINANCIAL INSTRUMENTS

IFRS for SME	Section 11, Basic financial instruments Section 12, Other financial instruments
UK GAAP	FRS5, Reporting the substance of transactions (part) FRS26, Financial instruments: measurement CA 2006

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
11.13	For financial assets and liabilities that are in substance financing transactions, interest needs to be recognised as income or a cost.	Though UK GAAP is not so specific on this, probably FRS5 would point to a similar treatment.	This could produce a difference (perhaps) in profit. For financial assets this would mean deferring part of the income as an interest component. For liabilities, part of the cost would be identified as interest.	For financial assets, the tax would probably follow the accounting treatment. For liabilities, the deduction of interest would have to be on a paid basis and so might be delayed until the end of the financing period.
11.14	Investments in equities should be at fair value (FV) through P&L where FV is reliably measurable. For listed investments with quoted market prices, this would certainly apply.	No requirement for FV under UK GAAP, which would allow a historical cost approach. The alternative accounting rules in CA 2006 would allow FV but not with changes through P&L. The fair value rules would allow for this, but large & medium-sized entities (LME) using the fair value rules would already have to comply with FRS26 (IAS39), which would have same requirements as IFRS for SMEs.	This FV accounting would produce an increase in profits based on their earlier recognition, but also lower profits on disposal. Losses recorded by FV could also be greater, though in some cases impairment charges might equalise them.	The fair value gain would be treated as unrealised gain and would not be taxable until disposal of the asset.
11.33 to 35	Derecognition rules for financial instruments broadly based on retention of risks and rewards.	FRS5 has a series of examples and guidance, albeit based on apparently similar principles.	This might produce a balance sheet difference, but a P&L difference is less likely.	Therefore, probably no difference in tax.
12.8	Derivatives have to be at FV through P&L	No requirement under UK GAAP to do this, though it would be possible under the fair value option (but see 11.14 above). Amortised cost would be acceptable.	Would tend to produce earlier recognition of profits (which, if they reversed, would also appear as extra losses). Generally, there would be less effect from losses on derivatives, as these should be provided for under a historical cost model as onerous contracts.	Would produce a difference in profit which would probably affect tax.
12.12	Where loans are made at less than market rates of interest then carrying values should be adjusted to NPV of future cash flows at a market rate.	Nothing so definitive in UK GAAP (except where FRS26 was followed).	Would produce a difference in profit, based on an extra interest income for the recipient and an increased cost for the payer.	This would affect tax. This could be an issue. particularly within groups. The interest element might be increased for the recipient, but there might be no increased deduction for the payer.
12.17 et seq	Hedge accounting is allowed under certain conditions (designation, documentation and effectiveness) and for certain risks.	Nothing so definitive in UK GAAP (except where FRS26 was followed). So hedge accounting is currently largely unrestricted.	There would be an unavoidable difference in profit only where existing hedge accounting was not allowed. Documentation and designation requirements might diminish the use of hedge accounting.	Tax would follow the accounting treatment.

ASSOCIATES AND JOINT VENTURES

IFRS for SME	Section 14, Investments in associates Section 15, Investments in joint ventures
UK GAAP	FRS9, Associates and joint ventures

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
14.4	In consolidated accounts, associates can be stated using one of: • cost • equity method, or • fair value. Where associates are quoted, then the FV through P&L accounting must be used.	UK GAAP would always require the equity method.	Would produce a difference in profit if one of the other two options is used. Use of cost would tend to defer profit recognition. Use of fair value might accelerate gains and losses.	No effect for tax purposes as this would be in consolidated accounts only.
14.6	All dividends received are to go to P&L whether they come out of pre- or post-acquisition reserves. Investments are then subject to impairment.	This would be different for accounting for fixed asset investments under the CA where dividends from pre-acquisition profits would have to be deducted from cost.	Where there are dividends from pre-acquisition profits these could increase reported profits – assuming that any offsetting impairment charges would be less.	Dividends are not taxable and so no tax effect.
15.9	In consolidated accounts jointly controlled entities can be stated using one of: • cost • equity method, or • fair value.	UK GAAP would always require the equity method.	As for 14.4 above. Would produce a difference in profit.	No effect for tax purposes as this would be in consolidated accounts only.

INVESTMENT PROPERTY, PROPERTY, PLANT AND EQUIPMENT

IFRS for SME	Section 16, Investment property Section 17, Property, plant and equipment
UK GAAP	SSAP19, Accounting for investment property FRS15, Tangible fixed assets

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
16.7	Where FVs are reliable and obtainable without undue cost or effort, investment properties are at FV through P&L.	SSAP19 requires investment property to be at market value, but the changes go through STRGL not P&L.	Would produce a difference in profit, but no effect on the balance sheet.	No tax effect as no gain or loss until disposal.
17.5	Major spare parts for property, plant and equipment (PP&E) should be treated as part of the cost of the asset.	No such specific treatment required by UK GAAP. Could perhaps be treated as stocks.	If there were a different treatment this might mean the cost would be recognised as depreciation instead of as a stock write-down or replacement cost as now.	Even so, there could be a difference in tax if capital allowances were claimed.
17.11	Borrowing costs during the period of construction must be written off as incurred.	There is an option in FRS15 to include these in the costs of the asset.	This difference would recognise costs earlier and so tend to reduce profits.	See 25.2 below.
17.13	Where there are deferred payments for PP&E, cost should be the NPV of future payments.	Not specifically covered in FRS15.	Could mean the value of assets capitalised was reduced. Depreciation could be substituted by interest. So P&L could be affected.	Tax would probably follow the accounting here, though deduction for interest cost might be deferred until paid.
17.14	Where PP&E acquired by way of an asset exchange, FV of the assets should be used as cost.	Not specifically covered by FRS15, but could be assumed to be the treatment under UK GAAP – substance of the transaction and the comparable treatment of donated assets.	A difference, if any, could increase carrying values on the balance sheet and the P&L, therefore, via an increased depreciation charge.	Tax allowances, etc would normally be based on FV.
17.15	Subsequent expenditure on PP&E not covered in any detail. Day-to-day servicing costs to be expensed.	FRS15 more specific on the qualities needed to qualify as additional cost. For owners of infrastructure networks there is the option to use the specific renewals accounting regime (which would not be possible under IFRS for SMEs).	The balance between repair costs, capitalisation and depreciation could be different. There might be a tendency for the amounts charged as repairs to increase under IFRS for SMEs. Depreciation would decrease.	Tax would follow the accounting treatment to a large degree.
17.15	Revaluation of PP&E is not permitted.	Revaluation is an option for UK GAAP, but once chosen must be kept up to date. Depreciation charges are increased by revaluation and disposal profits reduced.	Profits will tend to be higher under IFRS for SMEs for those companies that had a policy of revaluation under UK GAAP. There will probably be opportunities under the transitional rules to reverse the effects of any revaluation, or to retain them at deemed cost.	Tax will not be affected as the capital allowances are unaffected.
17.19	Residual values should be adjusted upwards as well as down in calculating depreciation.	FRS15 restricts the uplift of residual values. Depreciation under IFRS for SMEs could therefore be lower.	This would tend to lead to higher profits reported under IFRS for SMEs.	There would be no effect on tax.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

IFRS for SME	Section 18, Intangible assets other than goodwill Section 19, Business combinations and goodwill
UK GAAP	FRS6, Acquisitions and mergers FRS7, Fair value in acquisition accounting FRS10, Goodwill and intangible assets SSAP13, Accounting for research and development

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
18.8, 19.14 and 19.15	Greater recognition of intangible assets (IA) in a business combination when separable from goodwill.	UK GAAP will tend to include more in the goodwill total.	There could be profit effects tending to increase the overall amortisation charge, assuming that IA have shorter useful lives than goodwill.	Tax allowances are available (to companies only, not to unincorporated businesses) for goodwill or these IA when these are purchased directly, ie does not apply to goodwill arising on consolidation. No tax effect as goodwill and IA treated in the same way, but amortisation rates could make a difference (see 18.19 below).
18.14	Development costs must be written off as incurred.	SSAP13 includes an option to capitalise if certain conditions are met.	IFRS for SMEs would tend to recognise costs earlier and so reduce profits for those companies that have used the option in UK GAAP.	The tax would be affected as it would follow the accounting in this regard. Could be of particular significance to software and pharmaceuticals.
18.17	Past costs expensed cannot be capitalised later.	Not specifically covered, but probably implicit in SSAP13, etc.	This issue is, however, very much less significant for IFRS for SMEs given the general prohibition on capitalisation of internally generated IA.	Tax would follow the accounting.
18.18	Revaluation of IA is not permitted.	Revaluation is an option under UK GAAP, but only for a very limited range of assets (ones with a ready market value). Depreciation charges are increased by revaluation and disposal profits reduced.	Profits will tend to be higher under IFRS for those few companies that revalued IA under UK GAAP. There may be opportunities under the transitional rules to reverse the effects of any revaluation, or to retain them at deemed cost.	Tax will not be affected.
18.19 and 19.23	IA and goodwill must be amortised over their useful life (default period, 10 years)	UK GAAP also allows an indefinite life with no amortisation but with an annual impairment test. This option is not much used. When applying amortisation, the default period will tend to be 20 years.	Amortisation charges will tend to be higher under IFRS for SMEs and profits therefore lower.	For purchased goodwill (not consolidation goodwill) and IA, the tax would be affected as it would follow the accounting in this regard.
19.6	Merger accounting is not allowed: all business combinations must be accounted for as acquisitions.	UK GAAP does allow merger accounting in limited circumstances. The main differences would be the date from which results are included in the P&L and the effect on the P&L of the absence of a fair value revaluation of assets and liabilities acquired.	In cases where merger accounting might otherwise have been used, IFRS for SMEs will tend to reduce the reported profits (the later date for inclusion of profits, higher costs derived from the FVs). Restatement would not be required for any combinations before transition.	Any difference would be seen only in the consolidated accounts and so there would be no tax impact.
19.24	Negative goodwill is to be credited to current year P&L.	UK GAAP would in most of these cases spread the gain over several periods when assets and liabilities acquired would be realised/settled.	Relatively few cases will arise, but for them profits will be recognised sooner than under UK GAAP.	Tax would follow the accounting.

LEASES

IFRS for SME	Section 20, Leases
UK GAAP	SSAP21, Accounting for leases abd the purchase contracts

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
20.4	Boundary between finance and operating leases is determined by whether or not substantially all the risks and rewards of ownership are passed to the lessee.	UK GAAP has similar principles but also includes a specific 90% of fair value of the asset as a guide.	This would only change classifications at the margin. Any impact on reported profits is likely to be marginal also.	Tax follows the accounting in this regard.
20.15	No reference to the effect of incentive payments in accounting for operating leases, but the same general straight-line basis for lease payments.	UITF28 provides specific treatment. Incentive payments have to be spread forward by lessees and not recognised upfront.	Not clear that the accounting should be different. But if so the costs of these operating leases would tend to be recognised later under IFRS for SMEs.	Tax follows the accounting in this regard.
20.17	Interest allocation by the lessor over the period of the finance lease should be done on the net investment in the lease.	UK GAAP requires the allocation to be done on the net cash investment, which is a post-tax measure.	Interest income and so profits of lessors will tend to be more back-end loaded under IFRS for SMEs.	Tax would also be affected.
20.17 to 20.29	There is much less specific guidance in IFRS for SMEs on lessor accounting.	The FLA SORP provides more detailed guidance.	There could be differences in balance sheet values and so in the pattern of profits.	There could be differences therefore in tax.

MEASUREMENT OF SHARES

IFRS for SME	Section 22, Liabilities and equities
UK GAAP	CA 2006

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
22.8	Discounting the amounts receivable for shares to their NPV.	Will not always be possible under CA 2006 and the amounts of interest recognised in P&L might have to be reclassified to share premium.	Not likely to be a major or common issue, but reported profits might be higher under IFRS for SMEs for this interest element.	Not clear what the tax effects would be.

REVENUE RECOGNITION

IFRS for SME	Section 23, Revenue
UK GAAP	FRS5 (ANG5), Revenue recognition SSAP9, Stocks and long-term contracts (part) UITF40, Revenue recognition and service contracts

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
23.3	Revenue is measured by the amounts of consideration received or receivable.	FRS5 Application Note G (ANG) is subtly different, referring to recognising revenue as the right to consideration is gained. In general ANG gives more extensive guidance than in IFRS for SMEs.	IFRS for SMEs might allow for later recognition of profit. The more detailed guidance could tend either to bring forward or to delay profit recognition.	Tax would be changed to the same extent, as it would follow the accounting treatment.
23.15	For service income, profit recognition might be delayed until a significant act is performed.	UITF40 significantly restricts the application of this provision, but refers to recognition in line with performance and earning the right to consideration.	IFRS for SMEs might allow for later recognition of profit.	Tax would be changed to the same extent, as it would follow the accounting treatment.
23.16	If the outcome of service provision cannot be estimated reliably, the revenue should be recognised to the extent of costs incurred.	No such provision in SSAP9 or ANG.	This difference might tend to defer the recognition of losses as compared with UK GAAP (where it is possible that no revenue would be recognised under SSAP9).	Tax would be affected similarly.

GOVERNMENT GRANTS

IFRS for SME	Section 24, Government grants
UK GAAP	SSAP4, Accounting for government grants

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
24.4	Government grants recognised in full when performance conditions met.	SSAP4 allows for the deferral of grant income to match the related expenditure (eg the depreciation of PP&E for which grants have been received).	IFRS for SMEs will recognise profits earlier than UK GAAP in these cases.	Tax treatment would follow the accounting in this regard.

BORROWING COSTS

IFRS for SME	Section 25, Borrowing costs
UK GAAP	FRS15, Tangible fixed assets

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
25.2	Borrowing costs cannot be capitalised into the cost of assets (PP&E, inventory, etc) and must be written off as incurred.	There is an option in FRS15 to include these in the costs of the asset. No specific reference in standards dealing with IA or inventory, but deemed possible to do so.	The current option to capitalise is less frequently used than the immediate write-off treatment. Nonetheless, for those companies that do capitalise, IFRS for SMEs would recognise these costs earlier, reducing profits.	There would be a tax effect. When interest is capitalised it may be treated for tax as a capital item and so allowed only on disposal of the asset. Interest dealt with as a revenue deduction would be allowed on a paid basis only.

SHARE-BASED PAYMENTS

IFRS for SME	Section 26, Share-based payment
UK GAAP	FRS20, Share-based payments UITF17, Employee share schemes UITF38, Accounting for ESOP trusts

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
26.10	The recognition of share-based payments is at the fair value of the instruments at date granted. Where this is impractical directors must use their own valuation.	FRS20 generally requires fair value measurement. Where fair values are unreliable, intrinsic values should be used instead. Intrinsic values are the difference between subscription price and the market value of the share when issued.	Profits would be different. Intrinsic values under UK GAAP would tend to defer the costs of the share schemes, but ultimately make the costs larger.	No effect on tax as there is no deduction for the costs of share schemes.

IMPAIRMENT OF ASSETS

IFRS for SME	Section 27, Impairment of assets
UK GAAP	FRS11, Impairment of fixed assets and goodwill SSAP9, Stocks and long-term contracts (part)

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
27.4	For inventories impairment provisions should be reversed when conditions improve.	Not mentioned specifically in SSAP9, but would be normal practice.	Should not give rise to different profits.	Should not, therefore. give rise to different tax charges.

EMPLOYEE BENEFITS

IFRS for SME	Section 28, Employee benefits
UK GAAP	FRS17, Retirement benefits

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
28.6	Payments to employees for short-term absences should be accrued for as the employees earn the right to them.	Not covered specifically in UK standards. Unclear whether all holiday pay entitlements are commonly provided for.	Profits would be reduced on transition to IFRS for SMEs to the extent that these provisions are not currently made. Profits reduced subsequently if wages costs rise and vice versa.	Tax will follow accounting treatment here.
28.19	Allows a simplified version of measurement of actuarial gains and losses to be made.	FRS17 requires the projected unit credit method to be used in the actuarial assessment.	For those companies with defined-benefit schemes, pension costs under IFRS for SMEs could be different, probably lower.	Tax would be unaffected as the pension costs are allowed only as paid.
28.23	There is a choice for actuarial gains and losses to be recognised in full either in the P&L or in other comprehensive income (OCI).	FRS17 does not allow the option of full recognition in the P&L.	For companies taking up the full recognition in P&L, reported profits will tend to be reduced.	Tax would be unaffected (see 28.19 above).

INCOME TAX

IFRS for SME	Section 29, Income tax
UK GAAP	FRS19, Deferred taxation
	FRS16, Current tax

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
29.3	The basis for provision of deferred tax is temporary differences.	UK GAAP uses a timing difference approach, which will inevitably be different in some cases. Tax on revaluations is a case in point (although these are available on a more restricted group of assets than under UK GAAP).	Post-tax profits would be different, but taxable profits would not.	No effect on tax payable.
29.23	Deferred tax balances cannot be discounted.	There is an option in UK GAAP to discount deferred tax assets and liabilities. It has not been widely taken up.	For those that have taken up the option, moving to IFRS for SMEs will tend to increase the deferred tax charge and reduce post-tax profits.	Tax payable would not be affected.

FOREIGN CURRENCY TRANSLATION

IFRS for SME	Section 30, Foreign currency translation
UK GAAP	FRS23, The effects of changes in foreign exchange rates SSAP20, Foreign currency translation

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
30.2	Accounts must be prepared in the entity's functional currency.	No such requirement in UK GAAP. This might involve a change only rather exceptionally.	Profits could be different in these cases	Tax could be different in these cases.
30.18 and 30.19	Accounts must be translated into a presentation currency (eg for consolidation purposes into the group's currency), using average exchange rates for the P&L.	SSAP20 also allows the year-end rate to be used for the P&L at the consolidation stage.	Profits would be different, though not net assets.	The effect would appear only in the consolidated accounts and so would not affect tax payable.

HYPERINFLATION

IFRS for SME	Section 31, Hyperinflation
UK GAAP	FRS24, Financial reporting in hyperinflationary economies UITF9, Accounting for operations in hyperinflationary economies

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
31.4	The results of operations in hyperinflationary economies have to be retranslated using a general purchasing power index for non-monetary assets and liabilities.	UK GAAP also allows the restatement to be done into a 'strong' currency.	Reported profits would be different if the strong currency method has been used.	The effect would only appear in the consolidated accounts and so would not affect tax payable.

SPECIALISED ACTIVITIES: AGRICULTURE, EXTRACTIVE INDUSTRIES AND SERVICE CONCESSIONS

IFRS for SME	Section 34, Specialised activities
UK GAAP	FRS5 (ANF), Private Finance Initiative and similar contracts SORP, Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities

Ref in IFRS for SMEs	Requirement in IFRS for SMEs	Accounting difference with UK GAAP	Profit impact of changing to IFRS for SMEs	Tax impact of changing to IFRS for SMEs
34.4 and 34.8	Agricultural assets are to be at fair value where this can be obtained without undue cost and effort; otherwise at cost.	No specific UK standards cover agriculture. Normal practice would employ a mixture of cost and fair value for these assets.	To the extent that there would be increased use of fair value this will tend to produce earlier recognition of profits.	Tax on farming and on forestry are on particular bases.
34.13 to 34.15	Service concession assets with the operator are dealt with either as financial assets or intangible assets, depending on the risks attached to future income.	FRS5 ANF distinguishes where the operator might have a tangible fixed asset, a lease or a financial asset.	Profits could be different. Depreciation, interest and rentals could be substituted one for another. Restatement of contracts at date of transition would not be required.	Tax will probably be affected as well. The allocation of capital allowances does not necessarily follow the accounting treatment.
34.11	Expenditure on extractive activities (exploration or extraction) is accounted for either as PP&E or IA. Under IFRS for SMEs internally generated IA costs must be expensed.	The Oil & Gas SORP provides more detail on the treatment of expenditure. Exploration costs can be carried forward.	Profits will be different. Under IFRS for SMEs, exploration costs might be written off earlier, reducing profits.	The tax treatment is complex and specific to this sector.

TECH-AFB-NUG

ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com