Price Bailey
CHARTERED ACCOUNTANTS

Your ref
Our ref
30 April 2023

Accounting and Reporting Policy Team
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

Dear Sir/Madam

FRED 82 DRAFT AMENDMENTS TO FRS 102 THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND AND OTHER FRSs – PERIODIC REVIEW

Thank you for the opportunity to comment on FRED 82.

Price Bailey is a top 40 UK accountancy practice specialising in providing audit, accountancy, tax and business advice to enable the growth of regional, national and international businesses. We audit a number of entities within the SME sector and also listed companies.

We have 8 offices in the UK. We employ over 350 professionals and have a group turnover of over £30million.

We understand the desire for the FRS 102 to become more closely aligned with IFRS. However with some of the changes proposed in particular in regard to leases we do not believe that the benefit outweighs the cost especially in the current economic conditions. We also believe more work should be carried out to improve clarity in the financial reporting for Public Benefit Entities.

We have provided our detailed response to each of the questions in the attached appendix.

Yours faithfully

PRICE BAILEY LLP

Our Promise
At Price Bailey - it's all about you.

Causeway House 1 Dane Street Bishop's Stortford Herts CM23 3BT
Telephone 01279 755888 Fax 01279 755417 E-mail stortford@pricebailey.co.uk Website www.pricebailey.co.uk
Price Bailey DX 311001 BISHOPS STORTFORD 4

Price Bailey LLP is a limited liability partnership registered in England and Wales, number OC307551. The registered office is Causeway House, 1 Dane Street, Bishop's Stortford, Herts, CM23 3BT where a list of members is kept. Price Bailey LLP is registered to carry out audit work in the UK by the Institute of Chartered Accountants in England and Wales. Price Bailey is a member of IAPA, a global association of separately owned and independently managed accountancy firms.

Question 1. Disclosure

We consider that the overall level of disclosure under full FRS 102 is generally appropriate, subject to specific comments in respect of other sections below.

With regard to small entities the draft amendments to Section 1A make certain disclosures which were previously encouraged mandatory for UK small entities and we generally agree with this. However, we note that paragraph 1A.9 continues only to encourage the presentation of a Statement of Total Comprehensive Income and a Statement of Changes in Equity or a Statement of Income and Retained Earnings rather than making these mandatory.

We consider that the inclusion of this information is important for the readers' understanding of the financial statements, particularly as the transitional provisions for the new requirements on Revenue and Leases will result in adjustments directly in equity. We therefore recommend that paragraph 1A.9 is amended to make the Statement of Income and Retained Earnings statements mandatory and encourage the presentation of a Statement of Total Comprehensive Income and a Statement of Changes in Equity where relevant. We do not consider that this would be a significant additional burden for small entities as they will already need to have calculated the figures to be included in preparing the accounts.

Question 2. Concepts and pervasive principles

We agree that aligning the concepts and pervasive principles with the IASB 2018 Conceptual Framework. We also agree with the proposed exceptions in respect of the definition of an asset for the purposes of Section 18 *Intangible Assets other than Goodwill* and the extant definition of a liability for the purposes of Section 21 *Provisions and Contingencies* as this will align with the approach taken by the equivalent international standards.

We note that prudence has now been included within faithful representation rather than its own heading. Prudence is important and should still be separately addressed.

Question 3. Fair value

We agree with the proposal to align the definition of fair value, and the guidance on fair value measurement, with that in IFRS 13 *Fair Value Measurement* and with the retention of the existing definition in Section 26 *Share-based Payment*.

Question 4. Expected credit loss model

We agree with the FRC's decision to defer its conclusion as to whether to align FRS 102 with the expected credit loss (ECL) model of IFRS 9 Financial Instruments to a future date. Transitioning to an ECL model is complex and a further review is required before considering implementation.

Question 5. Other financial instruments issues

We agree with the proposal to prevent entities from newly adopting the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* as entities adopting IFRS are no longer permitted to adopt these.

We agree that once the IBOR reform provisions have served their purpose they should be deleted from FRS 102.

Question 6. Leases

We do not agree with the proposal to revise Section 20 for consistency with IFRS 16. We believe that we should retain the current classifications for finance and operating leases. The extra costs in implementing these changes will outweigh any benefit.

The users of the accounts currently understand the existing treatment. The changes would confuse the owners of a number of small businesses which adopt FRS102. Especially in the current economic climate it is important that there is comparability of an entities position and changing the treatment of leases would have a significant impact on the presentation of companies' balance sheets.

We think this should be deferred until there is a clearer indication that the benefit would outweigh the cost. The IASB have also indicated that they do not believe that the benefit will outweigh the cost for entities using the IFRS for SMEs standard and have recommended that the standard is not updated for IFRS 16.

If you still decide that you will continue with the proposed changes, then there should be an exemption for those preparing accounts under section 1A.

We note the Right of Use Assets will be presented as fixed assets lessees and reconciliations of the movements in the cost and depreciation of these will be required in accordance with paragraph 51 of Schedule 1 to the Regulations. However the disclosure requirements in paragraph 20.86 do not include these requirements, we consider that it would be helpful to include these requirements in FRS 102 as well.

In addition, whilst paragraph 3.14A does not require comparatives for the reconciliations of cost and depreciation required by the regulations, there is no similar exemption from the requirement to disclose additions to Right of Use Asset in paragraph 20.86(h). We consider that if our recommendation to include the requirement for a reconciliation is adopted the exclusion of the requirement for comparatives should also be given and that otherwise an exclusion for the requirement for comparative disclosure of additions to Right of Use Assets should be given.

Question 7. Revenue

Overall we believe that there is some benefit to aligning the recognition of revenue with IFRS, and introducing the 5 step model. At the moment the requirements for revenue recognition in the UK is limited and further clarification in this area will be welcome due to the complexities that can be involved. However, we consider that the requirement to reassess contracts in progress at the date of application under the revised model is too onerous and we therefore recommend that the changes are applied prospectively to contracts entered into after this date.

However we do not believe that changes are required to FRS105 for micro entities, for these simple entities no changes should be made to the recognition criteria for revenue.

The disclosure requirements proposed for contract income is excessive especially for Charities.

8. Effective date and transitional provisions

The proposed effective date of accounting periods beginning on or after 1 January 2025 means that, other than for short periods, the changes will be effective from 31 December 2025 year ends onwards. If the standard is finalised before the end of 2023 this will give entities two years to prepare. We consider that this is the minimum time necessary to prepare for the significant changes in respect of leases and to properly consider the changed requirements in respect of revenue (even though in many cases the conclusion on when to recognise it will be unchanged). Therefore we consider the proposed effective date to be acceptable on this basis. If the standard is not finalised before the end of this year then implementation must be delayed.

We agree with the requirement to calculate lease liabilities and Right of Use Assets on a modified retrospective basis at the date of initial application and the proposal that previously calculated IFRS 16 values which have been used for consolidation purposes may be used as opening balances on transition.

We agree with the proposal to permit an entity to apply the revised Section 23 of FRS 102 on a modified retrospective basis with the cumulative effect of initially applying the revised section recognised as an adjustment to the opening balance of each affected component of equity at the date of initial application. We also agree with the proposed simplification requiring entities adopting FRS 105 to apply the changes prospectively.

Question 9. Other comments

We have the following comments on other sections:

Section 3 *Financial Statement Presentation*

Paragraph 3.14 requires that "Except when this FRS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts

presented in the current period's financial statements" and it has been confirmed that this requirement extends to disclosures which are only required by a SORP which the entity is subject to. We consider that requiring comparatives for some SORP disclosures can make financial statements harder for users to understand by providing excessive information which obscures more relevant information.

We consider that the SORP making bodies are competent to determine whether in some cases comparatives are not appropriate and we recommend that paragraph 3.14 is amended by the addition of "In addition, where the financial statements are prepared in accordance with a SORP an entity shall present comparative information in respect of the preceding period for all amounts presented in the current period's financial statements due to the requirements of the SORP unless the SORP permits or requires otherwise".

Section 24 *Government Grants* and Section 34 *Specialised Activities: Incoming Resources from Non-Exchange Transactions*

When FRS 102 was first drafted Section 24 diverged from the requirements of The IFRS for SMEs, on which it was based, by also including an option to account for government grants using the accruals method (as this is the required accounting for entities using full IFRS as set out in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).

It was noted in the Accounting Council's Advice to the FRC that this was an interim solution pending the results of a proposed research project on grant accounting, this was reconsidered at the 2017 review and not changed. We note that the current review also does not propose to change this as there is not current prospect of the IASB resolving the inconsistency between the IFRS for SMEs and IAS 20.

When FRS 102 was introduced a sub-section was also added to Section 34 on Incoming Resources from Non-Exchange Transactions. This applies only to Public Benefit Entities and requires them to account for non-government grants using the performance method, prohibiting the use of the accruals method. This meant that for Public Benefit Entities the source of the grant determined how they were able to account for it. The Accounting Council's Advice to the FRC recognised that this was not ideal but accepted it as an interim solution.

We consider that whilst this inconsistency may have been acceptable as an interim solution it now appears to have become effectively permanent. We therefore disagree with the conclusion at paragraph B34.1 of the FRED that no change should be made and recommend that the FRC resolves the inconsistency by requiring Public Benefit Entities to account for grants received from all sources in accordance with the requirements in Section 24 (i.e. with a choice to use either the performance or the accruals method). Alternatively, this could be achieved by including all grants in section 24.

Section 34 *Specialised Activities: Incoming Resources from Non-Exchange Transactions*

We consider that the following proposed wording in paragraph 34.70A (which has been moved from Appendix B) is potentially unclear: "Legacies normally meet the recognition criteria

following probate once the executor(s) of the estate has **established** that there are sufficient assets in the estate, after settling liabilities, to pay the legacy. Evidence that the executor(s) has **determined** that a payment can be made may arise on the agreement of the estate's accounts or notification that payment will be made. When notification is received after the reporting date but it is clear that the executor(s) had **agreed** prior to the reporting date that the legacy can be paid, the legacy is accrued in the financial statements."

We consider that the use of the different words established, determined and agreed in this sentence has the potential to cause confusion and we consider that the same word should be used in each case as they are all about establishing that the will is going to require payment. In particular the use of the word agreed suggests a discretionary action on the part of the executors, which does not seem to be what is intended.

Paragraph 34.70A also notes that the certainty and measurability of a legacy receipt may be affected by subsequent events such as disputes, however it says nothing further about this. We consider that this section should be improved by providing further guidance with regard to when legacies should be considered to be contingent assets as it is only probable that the amounts will be received rather than virtually certain. There are a number of circumstances that may mean a legacy will not be received e.g. due either to an actual dispute or an expectation that one is likely even if it has not commenced by the date of approval of the financial statements. In connection with this we consider that this section should be explicit that where a legacy is a contingent asset it should not be recognised, even if it is considered probable that the legacy will ultimately be received.

Donated goods and services

PBE 34.73A and PBE 34.73B have been added which retain the requirement for charities to value donated goods and services and include these as donated income and expenditure, or as an asset if relating to a fixed asset, in the statutory accounts. As currently, these are valued based on the value to the charity which can be nil and volunteer time is still excluded. New wording in 34.70B on leases requires that where the rentals are significantly below market value that the 'incoming resources shall be accounted for as a contribution to the cost of the right-of-use asset.' The valuation of donated goods and services can be very subjective, especially in providing sufficient audit evidence to auditors. An example is the value of premises to a charity, no decision may have been considered by the Trustees on size of office or use of home working that would be taken if premises were not provided for free so any value attributed becomes subjective. Similarly such transactions can tip a charity into the audit threshold. Therefore we believe that donated goods and service should only be disclosed rather than valued.

PBE34.70 also covers donated goods for resale or distribution and currently requires these to be valued on receipt, and thus stock. Where this is impractical to determine due to high volume, low value items being received, such items can be accounted for when sold or distributed. The inclusion of 'when distributed' is new. We recommend that this requirement is changed to the donated goods being recognised when sold or distributed. The value of the 'stock' to the charity really nil, being lower of cost and net realisable value.

Price Bailey
CHARTERED ACCOUNTANTS

Question 10. Consultation stage impact assessment

We have no comments to make on the points raised within question 10.