

**Commissioners' Advisory Accountant's  
Forward Look at Accountancy Developments  
14 January 2008**

## **Commissioners' Advisory Accountant's Forward Look As at 14 January 2008**

### **Purpose of this document**

To set out the accounting developments (or other developments having an impact on accounting) in order to inform HMRC tax policy specialists and compliance accountants of likely significant changes that will require discussion, training or communication, whether internal to HMRC or between HMRC and external bodies.

The scope of the document includes all those topics that have been enacted and effective, but not yet 'seen' by HMRC because of time delays (for example, the time lag between companies' year-ends and submission of returns to HMRC), through exposure drafts of new accounting standards to tentative proposals and projects. It is designed to be forward looking and to identify potential areas of HMRC work some time ahead of impact.

It is not designed to be a general 'accounting update'. It does not cover matters that compliance accountants are unlikely to find themselves advising tax specialists and policy specialists on. It does not cover developments affecting government departments and local authorities, for example, and it places emphasis on those matters likely to be of interest to tax specialists and policy specialists.

### **Sections 1 and 2: Hot topics – enactments and proposals**

Hot topics are those items that HMRC, as informed by its research and discussions, is keeping under active review for the potential to require discussion, training or communication, whether internal to HMRC or between HMRC and external bodies.

### **Sections 3 and 4: Other developments – enactments and proposals**

Other developments are future developments that HMRC has decided it need not actively monitor. However, they may become 'hot topics' at a later date if circumstances warrant.

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
1. Hot topics - enactments**

Section 1 Hot topics – enactments

1A Accounting, UK GAAP

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
FRS23 and FRS26 'package' adoption	December 2004	Periods commencing on or after 1 January 2005	Relatively very few entities have adopted FRS23/26. When we have indication of larger scale adoption, it will trigger a training requirement – for Compliance Accountants and tax specialists.	Monitor.

1B Accounting, IFRS

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
IFRS3 Business Combinations (revised) and change to IAS27	10 Jan 08	Periods commencing on or after 1 July 2009 (early adoption permitted)	Change to the method of calculating minority interest and goodwill where there is a minority; change also to the treatment of costs in an acquisition.	Further analysis.
IFRIC 12: Service Concession Arrangements	Nov 06	Periods commencing on or after 1 January 2008	Establishes intangible, finance or mixed (bifurcated) models, may accelerate profit in some circumstances. Not yet endorsed by EU and some problems in getting that endorsement. Can adopt IFRIC12 approach anyway – IFRIC12 restricts other approaches.	Discussing with PFI contact group – group to provide examples to HMRC.
IFRS adoption		From years beginning 1 January 2005	Individual companies, LLPs and partnerships can adopt IFRS, not individuals. Other than banking sector, take up very low at current time because of range of factors but mainly IAS27 creating dividend blocks within groups, and general unsuitability for smaller entities without a FRSSE equivalent. See December 07 ED of changes to IFRS1 and IAS27.	Training delivered to accountants, awareness to tax specialists.  Monitor.

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
1. Hot topics - enactments**

1C Other

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
House of Lords' judgement in Mars & W Grant 'Depreciation in Stock' appeal	28 March 2007		Wide ranging potential impacts of decision are being considered, particularly judgement that only net items are 'in' the profit and loss account for the year where there are debits and credits in respect of the same thing.	Further analysis.
Companies Act 2006 Part 15 (Accounts) and Part 16 (Audit)	2006	Into force on 1 October 2007	Minor amendments but section numbers and references will change.	Communication to Compliance Accountants

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
2. Hot topics - proposals**

Section 2 Hot topics – proposals

2A Accounting, UK GAAP

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
FRED 39 Amendments to FRS 12 Provisions, Contingent Liabilities and Contingent Assets and amendments to FRS17 Retirement Benefits	July 2005	Comments being analysed	Proposes that all obligations will meet the definition of a liability with expected value required to measure - change in measurement of obligation from FRS 12. Single large provisions most affected, or entities with large volume or size of contingent liabilities. Also ends contingent assets. Questions over scope of proposed changes. Consequent on IASB's consultation on its changes to IAS37.	Await analysis. IASB due to publish amended IAS37 in 2008.
Future UK 'big' GAAP			Debate envisages a multi-tiered approach. Public groups: full IFRS; subsidiaries and large entities (to be defined) the IFRS for SMEs – or a UK equivalent. If EC decides contrary to 4 <sup>th</sup> directive, question as to how far ASB could go in adopting it into UK GAAP.	Monitor.
Future UK small company GAAP			Consequent on IFRS for SMEs debate. It is probable that it won't go far enough on simplification for small (FRSSE) entities, and so scope or probability of a FRSSE based on IFRS for SMEs or UK equivalent.	Monitor.
Future UK micro entity GAAP			Consequent on EC proposals to exempt micro entities from 4 <sup>th</sup> and 7 <sup>th</sup> directives, there will be a debate about what micro entity GAAP should be, who are the users and who should write it.	Monitor – engage with stakeholders.
Draft UITF abstract: 'hedges of a net investment in a foreign operation'	1 October 2007		Affects FRS23 and FRS26 adopters. Implements IFRIC's draft D22 in the UK. About when qualifies as a hedge and whether hedging instrument has to be in same entity as hedged item.	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
2. Hot topics - proposals**

2B Accounting, IFRS

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
ED amendments to IFRS1 and IAS27	13 December 2007	Comment deadline 26 February 2008	Changes to deal with 'pre-acquisition' dividends and cost of investment. May receive a dividend from pre-acq profits and take it as income, but will trigger an impairment review of the investment.	
Emissions trading schemes			On IASB's agenda from December 2007. Treatment has diverged following withdrawal of IFRIC3. Will not touch government grant aspects.	
ED 9 Joint Arrangements	Sept 2007	Comment deadline 11 January 2008.	Proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Under the proposals, accounting for joint arrangements is not driven by the legal form in which the activities take place. Would replace IAS31. Some quite controversial proposals, including effectively seeing through the corporate veil for some assets; potentially unfairly increasing a venturer's net assets as a result.	Further analysis.
Draft IFRIC D22 Hedges of a net investment in a foreign operation	July 2007		About when qualifies as a hedge and whether hedging instrument has to be in same entity as hedged item.	Needs further analysis.
Insurance contracts	May 2007	Working group to discuss in April 2008.  ED 2009	The IASB published a discussion paper, 'Preliminary views on insurance contracts'. The paper proposes changes to accounting for insurance contracts which would apply to all entities with such contracts and not only to insurance companies. The paper raises some key issues on how liabilities should be measured generally.	Analyse further.

**Commissioners' Advisory Accountant's Forward Look**  
**As at 14 January 2008**  
**2. Hot topics - proposals**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Liabilities: Exposure Draft amendments to IAS 37 Provisions, contingent liabilities and contingent asset and IAS 19 - Employee benefits	June 2005	IFRS 2009	Comments being analysed. Potentially all obligations will meet the definition of a liability. Changes in measurement of obligation from IAS 37. Potentially contingent assets to be brought on the balance sheet also.	Await next step.
IFRS for Small and Medium sized Entities IASB Exposure Draft for a proposed Standard	Feb 2007	IFRS in 2008	Aims to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full IFRS. The adoption of the IFRS for SMEs will be a matter for each country or adopting jurisdiction to decide. A significant number of recognition/ de-recognition and measurement differences from full IFRS and differences from UK GAAP. Likely to become a standard.	
Fair Value Measurement	Nov 2006	'roundtables' in Q2 of 2008.  ED 2009.	The proposals would not introduce new measurements at fair value, but are aimed at providing consistency in the measurement of fair value, where this is required to be used under IFRS. The discussion paper is based on the US standard SFAS 157, 'Fair value measurements'	
Leasing		DP 2009	Leasing proposals moving up agenda – the IASB actively considering and discussing leasing changes with stakeholders. Proposals would fundamentally change the accounting for operating leases in the hands of lessees mainly, but other impacts as well. Considering how to develop a single 'right of use' model to cope with among other things, options.	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
2. Hot topics - proposals**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
ED: Annual Improvements project	October 2007	Comments by 11 January 2008.  IFRS Q2 of 2008.  Next set ED Q4 of 2008.	Number of 'small' 'straightforward' (or tidying up) items but possibly with significant clarifications or impacts including: <ul style="list-style-type: none"> <li>• Advertising and promotional activities (IAS38)</li> <li>• Sales of assets held for rental (IAS16)</li> <li>• Current or noncurrent presentation of derivatives (IAS1)</li> <li>• Reclassification of derivs into/ out of FVTPL (IAS39)</li> <li>• Applicable effective interest rate on cessation of fair value hedge accounting (IAS39)</li> <li>• Treating prepayment penalties as closely related embedded derivatives (IAS39)</li> <li>• Below market-rate loans from governments (IAS20)</li> <li>• Costs of originating a loan (IAS18)</li> <li>• Discount rate for fair value calculations (IAS41)</li> </ul>	

2C Other

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
EC simplification proposals for small companies			Proposals to extend 'disqualification period' for size brackets from two years to five years, to remove obligation for small companies to file accounts and to change size limits (small turnover £6.72m) – extending the range of entities that will fall into the 'small' category and therefore be able to use CA85 exemptions and FRSSE, and not have an audit.	Await result.

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
2. Hot topics - proposals**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
EC simplification proposals for micro companies			Simplification proposals – proposals that micros might not have to prepare accounts in line with the 4 <sup>th</sup> directive – leaving it to member states to determine what accounting for these companies should be.	Monitor.
EC consultation on whether to amend 2 <sup>nd</sup> directive on capital maintenance			Discussion around whether to maintain existing 'realised profits' basis (although 2 <sup>nd</sup> directive doesn't actually use 'realised' profits), or move to a solvency test. A further option might be to move to a simple 'profits' test. A solvency test would seem more onerous to apply in practice.	Monitor.
Draft Statutory Instrument on Companies Act 2006 Accounting requirements and LLPs			Carrying across the non controversial Companies Act 2006 accounting provisions to be applicable to LLP. Whereas companies with years beginning on or after 6 April 2008 will use Companies Act 2006 regulations, LLPs will not until later in 2008. For a large number of LLPs, their first affected year-end will be year ending 5 April 2009.	Monitor.

**Commissioners' Advisory Accountant's Forward Look**  
**As at 14 January 2008**  
**3. Other topics - enactments**

Section 3 Other topics – enactments

3A Accounting, UK GAAP

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Amendment to FRS 3 Reporting Financial performance	July 2007	Mandatory for APs beginning on or after 1 January 2007	The principal change to FRS 3 is to reflect the exemption from certain paragraphs of FRS 3 for entities applying FRS 26 and FRS 23 (IAS 21) 'The Effects of Changes in Foreign Exchange Rates'. Early adoption is permitted.	
FRSSE (2007)	Jan 2007	Applies to APs beginning on or after 1 January 2007	Updated version of the financial reporting standard for smaller entities (FRSSE) and supersedes FRSSE (2005). This includes a major simplification in terms of FRS 20, 'Share-based payment', where the standard requires a different recognition and measurement basis for equity-settled arrangements – not just those affecting employees.	
Amendment to FRS17: Retirement Benefits	Dec 06	AP/c 6 Apr 07		
Amendment to FRS23: Effects of Changes in Foreign Exchange Rates – Net Investment in a foreign operation	Dec 05	Y/c 1 Jan 06		
Amendment to FRS26: Financial Instruments: Measurement: Recognition and de-recognition	Apr 06	Y/c 1 Jan 07		
UITF 40 Revenue Recognition and Service Contracts	Mar 2005	Y/c 22 June 2005	Guidance issued by ICAEW on 27 April 2006 ratified by CCAB. It is possible that there are residual issues arising that will need to be dealt with.	No further public statements expected.
UITF 41: Scope of FRS20	Apr 06	Y/c 1 May 06		

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
3. Other topics - enactments**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
UITF 42: Reassessment of embedded derivatives	Apr 06	Y/c 1 Jun 06		
UITF 43 Interpretation of equivalence for section 228A exemption	Oct 2006	Implement as soon as practical		
UITF 44 Group and treasury share transactions (based on IFRIC 11)	Feb 2007	Y/c 1 March 2007		
UITF 45 Liabilities arising from participating in a specific market: Waste electrical and electronic equipment	Feb 2007	Applies to APE ending on or after 22 Jun 07	Clarity in when to provide for certain provisions – no widespread 'issues' expected.	
Higher and Further Education SORP (revised)	July 2007	1 August 2007	Revision of SORP.	

3B Accounting, IFRS

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Common control transactions and demergers			On IASB's agenda from December 2007.	
Share-based payment: vesting conditions and cancellations (IFRS2)		IFRS Q1 of 2008		
Share-based payment: group cash-settled share based payment transactions (IFRS2 and IFRIC11)			On IASB's agenda from December 2007.	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
3. Other topics - enactments**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
IFRIC 13 Customer Loyalty Programmes	July 2007		About revenue recognition when points or vouchers issued – requires deferral of revenue. Similar outcome to following FRS5 App Note G in UK GAAP. Not yet endorsed by EU. Was D20.	
IAS1 Presentation of Financial Statements	Sept 2007	AP's beginning on or after 1 Jan 2009	Will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non owner changes in equity' to be presented separately from owner changes in equity. All non owner changes in equity will be required to be shown in a performance statement. Restatements or reclassifications of comparative information will require a restated balance sheet as at the beginning of the comparative period.	
Amended IAS 23 (Borrowing costs)	March 07	Effective APs beginning on or after 1 Jan 09 (prospective application)	Requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. ASB has no intention at the moment of adopting this change into UK GAAP.	Limited impact on UK entities with low UK adoption of IFRS in entity accounts.
IFRS 8: Operating Segments			Segment results are to be managerial segments rather than geographic segments.	
IFRIC 14: The asset ceiling test for defined benefit schemes (IAS19)			Not yet endorsed by EU. Was D19.	
IASB IFRS 4: Insurance Contracts – Revised implementation guidance	Dec 05	Y/c 1 Jan 07		

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
3. Other topics - enactments**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Amendment to IAS21: Effects of Changes in Foreign Exchange Rates – Net Investment in a foreign operation	Dec 05	Y/c 1 Jan 06		
IFRIC 8: Scope of IFRS2	Jan 06	1 May 06	(formerly D16)	
IFRIC 9: Reassessment of Embedded Derivatives	Mar 06	Y/c 1 Jun 06.	(formerly D15)	
Amendment to IAS39: Financial Instruments: Measurement: Recognition and de-recognition	Apr 06	Y/c 1 Jan 07		
IFRIC 10: Interim Financial Reporting and Impairment	Jul 06	Y/c 1 Nov 06	(formerly D18)	
IFRIC 11: IFRS 2 – Group and Treasury Share Transactions	Nov 06	Y/c 1 Mar 07		

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
3. Other topics - enactments**

3C Other

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Companies Act 1985 (Small Companies' Accounts and Audit) Regulations 2006 (SI 2006/ 2782)	Nov 06		Small company accounting exemptions extended to financial services companies authorised under FSMA 06. Potentially less disclosure in affected companies.	
Companies Act 2006 changes re: constitution, memo and articles, share capital and so on		October 2009 implementation	Recently delayed implementation from October 2008.	
SI 2006/3289 The Waste Electrical and Electronic Equipment Regulations 2006	Dec 2006		Brings into UK law the main provisions of the EU Directive on WEEE; entities will need to recognise any liabilities arising from it at period ends on or after that date. Increase in liabilities for affected companies (UK GAAP and IFRS)	
BASLE II			Implications for the financial sector	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
4. Other topics - proposals**

Section 4 Other topics – proposals

4A Accounting, UK GAAP

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
FRED41 Related Party Transactions	July 2007		To incorporate IAS24 into UK GAAP, also consequential changes to definition of related party flowing from changes to definitions in law. Unlikely to have significant effect.	
FRED 28 Inventories; construction and service contracts; FRED 29 Property, plant and equipment; borrowing costs.	May 02		To adopt a range of IFRSs into UK GAAP: IAS2, IAS11, part of IAS18 in FRED 28 and IAS16 and IAS23 in FRED29. The version of IAS23 used in the FRED has now been superseded. Further consultation in ASB convergence discussion paper	
FRED 32: Disposal of Non-current Assets and Presentation of Discontinued Operations	Jul 03		To insert what is now IFRS5 into UK GAAP. Further consultation in ASB convergence discussion paper	
FRED 40 – Accounting for heritage assets	Dec 2006	Comments being analysed	Will be some circumstances where a write everything off option will be taken. Will affect Trusts, Charities.	
FRED 37 Intangible Assets (IAS38)	Jul 05		Comments being analysed	
FRED 38 Impairment of Assets (IAS36)	Jul 05		Comments being analysed	
ED amendment to FRS20 Share Based Payments	Mar 06		Comments being analysed. Re: vesting conditions and cancellations.	
ED: Amendment to FRS 25 (IAS32): Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation	Jul 06		Comments being analysed	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
4. Other topics - proposals**

4B Accounting, IFRS

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
ED on share-based payment	October 2007	Comment deadline 17 March 2008.	IFRIC proposal to amend IFRS2 and IFRIC11.	
Draft IFRIC D21 Real Estate sales	July 2007		When revenue should be recognised for sale of properties when not completed; sold 'off plan'.	
ED Proposed amendment to IAS 39 (portions)	Sept 2007	IFRS Q4 of 2008	Deals with what portions of a financial instrument may be designated as a hedged item. Proposal could result in significantly greater volatility in reported profits for some hedges of one sided risk using options.	
Amendments to IAS 27 Consolidated and Separate Financial Statements (Minority Interest)	Jun 05			
IASB amendments to IAS 32 Financial instruments, puttable instruments	Jun 06	IFRS Q1 of 2008		
Conceptual Framework: Phase A (objectives and qualitative characteristics)	Jul 06	ED Q1 of 2008		
Conceptual Framework: Phase B (elements and recognition)		DP 2009		
Conceptual Framework: Phase C (measurement)		DP Q4 of 2008		

**Commissioners' Advisory Accountant's Forward Look**  
**As at 14 January 2008**  
**4. Other topics - proposals**

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	<i>Details</i>	<i>Action Required</i>
Conceptual Framework: Phase D (reporting entity)		DP Q1 of 2008		
IASB Exposure Draft amendments to IFRS 1 (cost of investment in subsidiary) and IAS27	Jan 2007	IFRS Q2 of 2008		
IASB Exposure Draft amendments to IAS 24 (related parties)	Feb 2007	IFRS Q1 of 2008		
IASB ED Joint ventures		IFRS Q4 of 2008		
IASB Income tax		ED Q2 of 2008 IFRS 2009		
IASB amendments to IAS20 Government Grants and Disclosure of Government Assistance			Deferred until work on other relevant projects (liabilities) completed	
Revenue Recognition		DP Q2 of 2008	Two models under consideration – direct (performance) and balancing figure of difference in asset values in period.	
Financial Statement Presentation: Phase B		DP Q2 of 2008	IASB board discussing this at moment.	
Impairment			IASB staff work in progress	
Consolidation		DP Q3 of 2008	Working towards converged standard with FASB.	

**Commissioners' Advisory Accountant's Forward Look  
As at 14 January 2008  
4. Other topics - proposals**

4C Other

<i>Item</i>	<i>Date Issued</i>	<i>Key Date</i>	Details	<i>Action Required</i>
None.				