FRS 102 FACTSHEET 7
TRANSITION TO FRS 102

Transition to FRS 102

An entity may transition to FRS 102 from one of a number of other financial reporting frameworks including EU-adopted IFRS, FRS 101 *Reduced Disclosure Framework,* FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* or GAAP of another country.

Section 35 *Transition to this FRS* applies to the first-time adoption of FRS 102 and sets out how an entity prepares its first financial statements under FRS 102.

What about entities that have previously applied FRS 102, but not in their most recent reporting period?

An entity may either voluntarily, or necessarily, move between frameworks over time. For example, an entity that qualifies for the micro-entity regime may have voluntarily chosen to apply FRS 102 initially but subsequently decided to move to FRS 105 for cost or simplicity reasons. However, if the entity grows and it no longer qualifies for the micro-entities regime, it has to move back up to FRS 102. In this situation, the entity must apply Section 35 on both transitions to FRS 102 (unless on the second occasion it chooses to apply FRS 102 as if it had never stopped applying it).

This factsheet outlines these requirements including:

- the general procedures for transitioning;
- the mandatory transitional exceptions and optional transitional exemptions to retrospective restatement; and
- the disclosure requirements on transition.

This factsheet has been prepared by FRC staff and highlights the requirements of Section 35 on transition to FRS 102. It should not be relied upon as a definitive statement on the application of the standard nor is it a substitute for reading the detailed requirements of FRS 102.

General procedure: Retrospective restatement

Key FRS 102 references

In general, transitioning entities are required to do full retrospective restatement, however, Section 35 includes three mandatory exceptions to this rule and some 20 optional transitional exemptions. *35.7*

Full retrospective restatement means that all assets and liabilities at the date of transition (see below) are recognised (or derecognised), classified (or reclassified) and measured in accordance with FRS 102.

When is the date of transition?

One of the key terms used in Section 35 is the 'date of transition'. The date of transition is the beginning of the earliest period for which an entity presents full comparative information. *35.6, Glossary*

To illustrate this, for simplicity, this factsheet assumes the following fact pattern:

- An entity wishes to present financial statements for the first time under FRS 102 for the year ended 31 December 2019 with one year of full comparative information.

Section 35 acknowledges that some entities may choose to present more than one period of comparative information, however we expect the vast majority of entities to present just one comparative period.

Based on the illustrative fact pattern above, the date of transition would be the beginning of the comparative period (ie 1 January 2018). It is not 1 January 2019 ie not the beginning of the current reporting period.

Diagram 1 summarises the key dates for the illustrative fact pattern, and the associated disclosures required.

Diagram 1—Illustrative fact pattern

	1 Jan 2018	31 Dec 2018	31 Dec 2019	
Key date	Date of transition to FRS 102 Select which transitional exemptions to apply	Last set of financial statements conforming to previous reporting framework	First set of financial statements that fully conform to FRS 102	
Statement of financial position	Restate, but no need to present	Required	Required	*35.7*
Income statement		Required for period	Required for period	
Reconciliation of equity (previous reporting framework to FRS 102)	Required	Required		*35.13(b)*
Reconciliation of profit or loss (previous reporting framework to FRS 102)		Required		*35.13(c)*

Disclosures

Key FRS 102 references

The following disclosures are required for an entity following the illustrative fact pattern set out in Diagram 1.

Primary statements

In doing full retrospective restatement, the statement of financial position at both the date of transition (ie 1 January 2018) and the prior year end (ie 31 December 2018) will need to be restated to conform with the requirements of FRS 102. *35.7*

The opening statement of financial position at the date of transition does not need to be presented, however it still needs to be prepared so that the information needed for the transitional reconciliations can be determined.

The income statement for the prior year (ie 31 December 2018) should also be restated and presented.

Transitional reconciliations

The following transitional reconciliations are required:

- Equity determined in accordance with its previous financial reporting framework and its equity determined in accordance with FRS 102 at: *35.13(b)*
  - the date of transition to FRS 102 (ie in the illustration, 1 January 2018); and
  - the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework (ie in the illustration, 31 December 2018).
- Profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with FRS 102 for the same period (ie in the illustration, year ended 31 December 2018). *35.13(c)*

FRS 102 does not prescribe the format of the transitional reconciliations. Two possible formats are illustrated below along with the associated notes, however an entity may use any suitable format taking into account the nature and amount of their own adjustments. For simplicity, these illustrations generally ignore any deferred tax impact.

If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations should distinguish the correction of these errors from changes in accounting policy. *35.14*

Suggested presentation of reconciliations

Key FRS 102 references

Option 1

Reconciliation of equity

	Note	As previously stated	Effect of transition	FRS 102	As previously stated	Effect of transition	FRS 102
		At 1 Jan 2018			**At 31 Dec 2018**		
		CU '000	CU '000	CU '000	CU '000	CU '000	CU '000
Fixed assets	(i)	5,868	2,800	8,668	5,416	3,450	8,866
Current assets	(ii) (iii)	475	15	490	1,020	8[2]	1,028
Creditors: amounts falling due within one year	(ii)	(355)	(11)[1]	(366)	(324)	(14)[3]	(338)
Net current assets		120	4	124	696	(6)	690
Total assets less current		5,988	2,804	8,792	6,112	3,444	9,556
Creditors: amounts falling due after more than one	(ii)	(2,900)	(6)[1]	(2,906)	(2,840)	(3)[3]	(2,843)
Provisions for liabilities		(410)	-	(410)	(465)	-	(465)
Net assets		2,678	2,798	5,476	2,807	3,441	6,248
Capital and reserves		2,678	2,798	5,476	2,807	3,441	6,248

Reconciliation of profit or loss

	Note	As previously stated	Effect of transition	FRS 102 (as restated)
		Year ended 31 Dec 2018		
		CU '000	CU '000	CU '000
Turnover		832	-	832
Cost of sales	(ii) (iii)	(520)	(12)[4]	(532)
Gross profit		312	(12)	300
Administrative expenses	(ii) (iii)	(65)	45[5]	(20)
Other operating income		42	-	42
Fair value gain on investment	(i)	-	610[6]	610
Operating profit		289	643	932
Interest receivable and similar income		5	-	5
Interest payable and similar expenses		(130)	-	(130)
Taxation		(35)	-	(35)
Profit after taxation and for the financial year		129	643	772

[1] Adjustment for financial liabilities of CU17,000 which are split between those falling due within one year of CU11,000 and those falling due after more than one year of CU6,000 (see note (ii)).

[2] Adjustment for financial assets of CU18,000 less CU10,000 adjustment to inventory due to remeasurement using spot rate (see notes (ii) and (iii)).

[3] Adjustment for financial liabilities at 31 December 2018 of CU17,000 are split between those falling due within one year of CU14,000 and those falling due after more than one year of CU3,000 (see note (ii)).

[4] Increase in cost of sales of CU10,000 due to remeasurement of inventory using spot rate plus CU2,000 reclassification of costs from administrative expenses (see note (iii)).

[5] CU2,000 reclassification of costs to cost of sales plus CU3,000 fair value gain on financial assets plus adjustment to remove CU40,000 depreciation on investment property (see notes (i), (ii) and (iii)).

[6] Fair value increase from CU3,80,000 to CU4,410,000 (see note (i)).

Suggested presentation of reconciliations

Key FRS 102 references

Option 2

Reconciliation of equity

	Note	At 1 Jan 2018	At 31 Dec 2018
		CU '000	CU '000
Capital and reserves (as previously stated)		2,678	2,807
Fair value gain on investment property	(i)	2,800	3,450
Recognition of derivative financial instruments	(ii)	(2)	1
Re-measurement of stock using spot exchange rate	(iii)	-	(10)
Capital and reserves (as restated)		5,476	6,248

Reconciliation of profit or loss

	Note	Year ended 31 Dec 2018
		CU '000
Profit for the year (as previously stated)		129
Removal of depreciation charge on investment property	(i)	40
Fair value gain on investment property	(i)	610
Recognition of derivative financial instruments	(ii)	3
Re-measurement of inventory using spot exchange rate	(iii)	(10)
Profit for the year (as restated)		772

Notes to the reconciliations

The following notes are applicable to both suggested formats set out above.

Investment properties

(i) FRS 102 requires all investment properties that are not rented to another group entity to be measured at fair value, with gains and losses recognised in profit or loss. Under its previous financial reporting framework, Entity X was not required to measure investment property at fair value on the balance sheet. Instead investment property was measured at cost less accumulated depreciation and accumulated impairment losses.

At 1 January 2018, the carrying amount of the investment property was CU1,000,000 and its fair value was measured at CU3,800,000 resulting in a fair value gain of CU2,800,000 on transition. At 31 December 2018, the carrying amount was CU960,000 and the fair value of the property had increased further to CU4.41m. An adjustment of CU3,450.000 is required to the balance sheet along with an adjustment to remove depreciation of CU40,000 from administrative expenses and a fair value gain of CU610,000 recognised in the profit and loss in the year.

This example ignores deferred tax, but a deferred tax liability would usually be recognised in relation to the fair value gain on the investment property.

Suggested presentation of reconciliations

Key FRS 102 references

Financial instruments

(ii) Derivative financial instruments are classified as ‘other financial instruments’ in FRS 102 and are recognised as a financial asset or a financial liability, at fair value, when an entity becomes party to the contractual provisions of the instrument. Fair value gains and losses are recognised in profit or loss. Under its previous reporting framework, Entity X was not required to recognise derivative financial instruments on the balance sheet; instead the effects of the derivative financial instruments were recognised in profit or loss when the instruments were settled.

At 1 January 2018, financial assets of CU15,000 and financial liabilities of CU17,000 have been recognised. At 31 December 2018, financial assets of CU18,000 and financial liabilities of CU17,000 have been recognised. Profit for the period has increased by CU3,000.

(iii) The derivative financial instruments are foreign exchange forward contracts. Under its previous reporting framework, Entity X translated purchases in foreign currencies at the rate of exchange specified in a matching forward contract. FRS 102 requires purchases to be translated using the spot exchange rate on the date of the transaction. Items purchased since the transition date have been re-measured based on spot exchange rate.

At 31 December 2018 inventory has been reduced and cost of sales for the year end has been increased by CU10,000 and costs of CU2,000 have been reclassified as administrative expenses from cost of sales.

Other transitional disclosures

FRS 102 contains an overarching requirement to explain how the transition to FRS 102 has affected its reported financial position and performance. An entity also needs to provide a description of the nature of each change in accounting policy.

FRS 102 also contains disclosure requirements for entities that have previously reported under FRS 102 but not in their most recent annual financial statements, and for entities that did not present financial statements in previous periods.

Transitional exceptions and exemptions

Key FRS 102 references

As noted above, transitioning entities are required to do full retrospective restatement, however, Section 35 includes three mandatory exceptions to this rule and some 20 optional transitional exemptions. *35.7*

Mandatory exceptions to retrospective application

On transition, entities are not permitted to change the accounting for any of the following transactions: *35.9*

- Derecognition of financial assets and financial liabilities
- Accounting estimates
- Measurement of non-controlling interest

Further details of the requirements can be found in paragraph 35.9.

Optional exemptions from retrospective application

On transition, entities are permitted to select from a range of optional exemptions; Section 35 contains some 20 exemptions. Entities are allowed to pick and choose which of these exemptions to take; it is not an 'all or nothing' choice. Not all the exemptions will be relevant to all entities; for example, a business combinations exemption is permitted, but not all entities will have made acquisitions prior to the date of transition. *35.10*

It should be remembered that, subject to the mandatory exceptions above, full retrospective restatement is required unless:

- a transitional exemption is allowed under Section 35;
- an entity chooses to apply that transitional exemption; and
- an entity discloses the fact that the exemption has been applied.

Paragraph 35.10 sets out the exact details of all the exemptions but in brief:

- **Business combinations (including group reconstructions)**
  Entities can elect not to apply Section 19 *Business Combinations and Goodwill* to previous business combinations. *35.10(a)*
- **Share-based payment transactions**
  Entities can elect not to apply Section 26 *Share-based Payment* to share-based payment transactions granted before the date of transition, unless they had previously applied IFRS 2 *Share-based Payment* when they can apply IFRS 2 or Section 26 *Share-based Payment* of FRS 102 on transition. *35.10(b)*
- **Fair value as deemed cost**
  Entities can elect to use fair value as deemed cost for items of property, plant and equipment, investment property and intangible assets. *35.10(c)*
- **Revaluation as deemed cost**
  Entities can elect to use a previous revaluation as deemed cost for items of property, plant and equipment, investment property and intangible assets. *35.10(d)*
- **Individual and separate financial statements**
  Entities can elect to measure investments in subsidiaries, associates and jointly controlled entities either at cost at the date of transition or deemed cost (being the carrying amount) at the date of transition. *35.10(f)*
- **Compound financial instruments**
  Entities can elect not to separate the liability and equity components if the liability component is not outstanding at the date of transition. *35.10(g)*

Optional exemptions from retrospective application

Key FRS 102 references

- **Service concession arrangements—Accounting by operators**
  Operators of service concession arrangements can elect to continue to apply their existing accounting policy at the date of transition. *35.10(i)*

- **Extractive activities**
  Entities can elect to measure exploration and evaluation assets and assets in development or production phases under its previous financial reporting framework at the date of transition. *35.10(j)*

- **Arrangements containing a lease**
  Entities can elect to determine whether an existing arrangement contains a lease using the facts and circumstances existing at the date of transition, rather than when the arrangement was entered into. *35.10(k)*

- **Decommissioning liabilities included in the cost of property, plant and equipment**
  Entities can elect to measure the decommissioning component of property, plant and equipment at the date of transition, rather than on the date the obligation initially arose. *35.10(l)*

- **Dormant companies**
  Dormant companies can elect to retain their accounting policies at the date of transition until there is any change in those balances or the company undertakes any new transactions. *35.10(m)*

- **Borrowing costs**
  Entities that will adopt a policy to capitalise borrowing costs going forward can elect to start capitalisation from the date of transition, rather than from when borrowing costs were incurred. *35.10(o)*

- **Lease incentives**
  Entities can elect to continue to apply their existing accounting policy in relation to lease incentives existing at the date of transaction. *35.10(p)*

- **Public benefit entity combinations**
  Entities can elect not to restate existing public benefit entity combinations. *35.10(q)*

- **Assets and liabilities of subsidiaries, associates and joint ventures** *35.10(r)*
  If a subsidiary transitions to FRS 102 after its parent, the subsidiary can measure its assets and liabilities at either the carrying amounts included in the consolidated financial statements, based on the parent's date of transition to FRS 102, if no adjustments were made for consolidations procedures and for the effects of the subsidiary's acquisition or in accordance with Section 35.

  If a parent transitions to FRS 102 after its subsidiary, the consolidated financial statements shall include the subsidiary's assets and liabilities at the same carrying amounts as those in the subsidiary's financial statements.

  Similarly, the underlying amounts recognised in the separate and consolidated financial statements of a parent should be the same.

- **Designation of previously recognised financial instruments**
  Entities can designate any financial asset and financial liability at fair value through profit or loss at the date of transition, provided it meets certain criteria. *35.10(s)*

- **Hedge accounting**
  Section 35 contains a number of exemptions in relation to hedge accounting depending on the particular facts and circumstances applicable. *35.10(t)*

Optional exemptions no longer available

Key FRS 102 references

There are three exemptions that due to particular circumstances are no longer available:

- **Deferred development costs as a deemed cost**
  An exemption is permitted in relation to development costs capitalised under SSAP 13 *Accounting for research and development.* This is no longer available as no entities will be transitioning from that, now withdrawn, standard. *35.10(n)*

- **Small entities—fair value measurement of financial instruments**
  This exemption was only available to small entities transitioning to FRS 102 for accounting periods starting before 1 January 2017. This was to address potential issues arising from a short implementation period following the implementation of the EU Accounting Directive. *35.10(u)*
  Entities transitioning to FRS 102 from a framework that does not require fair value measurement of financial instruments, such as FRS 105, will need to ensure that processes are in place ahead of time to collect fair value data for comparative periods.

- **Small entities—financing transactions involving related parties**
  This exemption was only available to small entities transitioning to FRS 102 for accounting periods commencing before 1 January 2017. This was to address potential issues arising from a short implementation period following the implementation of the EU Accounting Directive. *35.10(v)*

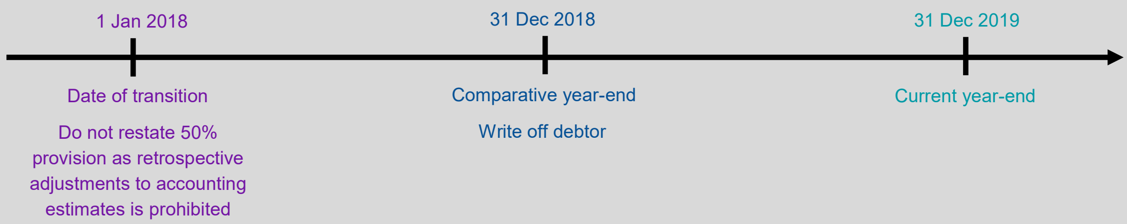
Examples

Key FRS 102 references

The following examples illustrate how the transitional exemptions may be applied to five common transactions. The examples assume the fact pattern illustrated earlier in this factsheet with an entity wishing to present financial statements for the first time under FRS 102 for the year ended 31 December 2019 with one year of full comparative information (ie for year ended 31 Dec 2018).

1. Accounting estimates

At 31 December 2017, Entity A had a debtor balance of CU500. At 31 December 2017 Entity A was concerned about the credit risk of the debtor and was in discussion with the debtor as to how the debt might be settled. As a consequence Entity A had made a provision of CU250, ie for 50 per cent of the balance as at that date. During 2018 the debtor collapsed and was liquidated. *35.9*



When Entity A prepares its opening balance sheet as at 1 January 2018 (the date of transition), it is clear that it will not be able to collect the outstanding debt. However, Entity A should not revise its estimate under its previous financial reporting framework because FRS 102 prohibits retrospective adjustments to accounting estimates on the date of transition.

2. Business combination before the date of transition

On 1 January 2015, Entity B acquired a wholly-owned subsidiary. At the date of acquisition, Entity B recognised the following assets and liabilities at their fair values in its consolidated financial statements under its previous financial reporting framework. Entity B did not recognise deferred tax in respect of any of the fair value adjustments made on acquisition.

	CU	CU
Property, plant and equipment	30,000	
Goodwill	10,000	
		40,000
Stock	1,000	
Debtors	1,500	
Net current assets	2,500	
Creditors	(3,000)	
Net current liabilities		(500)
Net assets acquired		39,500

On transition:

Measurement of goodwill

FRS 102 states that goodwill shall be considered to have a finite useful life and in the exceptional cases when an entity is unable to make a reliable estimate of the useful life, the life shall not exceed 10 years. *19.23(a)*

On acquisition in 2015, Entity B determined that the goodwill had an economic life of 15 years. At 31 December 2018 the carrying amount for the goodwill is therefore CU7,333 and has a remaining useful life of 11 years.

Examples

Key FRS 102 references

Entity B still considers the remaining useful economic life of that goodwill to be 11 years and can provide adequate evidence to support this. It is therefore not required to adjust the expected amortisation profile.

Measurement of other acquired assets and liabilities

In accordance with Section 35, Entity B decides not to apply the requirements of Section 19 *Business Combinations and Goodwill* retrospectively to the acquired assets and liabilities. Entity B is still required to recognise and measure those acquired assets and liabilities that remain within the group at the date of transition in accordance with the other first-time adoption accounting requirements set out in paragraphs 35.7 to 35.10 of FRS 102. *35.10(a), 35.7 to 35.10*

Entity B determines that no adjustments to the acquired assets and liabilities are required in accordance with the first-time adoption accounting requirements of FRS 102, except for deferred tax. Paragraph 29.6 of FRS 102 requires the recognition of deferred tax on all timing differences. Entity B still owns the acquired property, plant and equipment which were fair valued on the date of acquisition. Entity B measures the deferred tax liability on the fair value adjustments (to the extent that they have not been reduced by depreciation prior to the date of transition) based on tax rates enacted or substantively enacted at the date of transition and records the corresponding adjustment in equity. *29.6*

3. Revaluation as deemed cost

Entity C[7] has two properties, A and B. Neither Property A nor Property B is an investment property. Entity C has an accounting policy to revalue its properties and to fully depreciate them over a useful life of 50 years from the date of purchase.

Property A was acquired on 31 December 1984 at a cost of CU1,000 and has been revalued on a regular basis; the last time was on 31 December 2014 when its value was recorded in the financial statements at CU100,000 and its remaining useful life was 20 years. There has been no significant change in the value of Property A since that revaluation.

Property B was acquired on 31 December 2014, at a cost of CU50,000. Property B has never been revalued as it was purchased in the same year that the most recent valuation was carried out and at that time its cost was the best available evidence of its valuation. There has been no impairment in its value.

On transition:

Entity C decides not to continue its policy of revaluation.

Paragraph 35.10(d) provides an optional exemption from restating the value of the property based on its original cost. Therefore Entity C has the following two choices in relation to Property A:

- it could elect to use the most recent revaluation from 2014 (being CU100,000) as its deemed cost at that date and no further adjustment is required; or
- it could restate the cost of the property to its original cost of CU1,000, adjusting accumulated depreciation accordingly.

If the revalued amount of CU100,000 were used as its deemed cost, in order to comply with company law the difference from the relevant historical cost amount would need to be shown in a revaluation reserve and the excess depreciation, above that calculated on a historical cost basis, would continue to be offset against it. Also as Property A is not carried at historical cost any other company law disclosures relating to revalued property will be required.

[7] In this example, Entity C must be applying either IFRS or FRS 101 as FRS 105 does not permit revaluation of property, plant and equipment.

Examples

Key FRS 102 references

If the property is restated to the original cost of CU1,000 the following adjustment would be required:

Dr	Revaluation Reserve	CU84,660	
Dr	Accumulated depreciation	CU14,340[7]	
Cr	Property, plant and equipment		CU99,000

No adjustment is required on transition for Property B[8].

7 This represents three years depreciation (from 31 December 2014 to 1 January 2018) on the revalued amount being £15,000 in total (CU100,000 x 3 / 20 years remaining) less 33 years depreciation (from 31 Dec 1984 to 1 January 2018) on the historical cost being CU660 in total (CU1,000 x 33 / 50 years) which is not adjusted for.

8 The exemption to permit revaluation as deemed cost is available at the level of individual items of property, plant and equipment. Entity C could choose to revalue Property B at the date of transition and use that new valuation as deemed cost. Similarly, as an alternative to using the 2014 valuation for Property A, Entity C could revalue it at the transition date (irrespective of whether Property B is revalued at transition date).

4. Borrowing costs

Entity E decided to construct a new building for its own use. Work on the construction commenced during 2017. Entity E capitalised tangible fixed assets on the basis of cost, in accordance with its previous financial reporting framework, but had not previously constructed any significant assets.

As at 31 December 2017, Entity E had capitalised construction costs of CU25,000 and estimated that it still had approximately nine months of construction work ahead. Entity E had a accounting policy of not capitalising borrowing costs, but if it did the amount capitalised would be CU300.

During 2018 Entity E completed construction of the building. The total cost to be capitalised in accordance with FRS 102 (excluding borrowing costs) is CU90,000. Qualifying borrowing costs calculated in accordance with FRS 102 relating to the project as a whole are CU2,500, including the CU300 from 2017.

On transition to FRS 102, Entity E reviews its accounting policies and decides that it will now elect to capitalise borrowing costs in accordance with Section 25, and in accordance with paragraph 35.1(o) it elects to capitalise costs prospectively from 1 January 2018. As a result, no adjustment is made to the carrying value of the asset at the date of transition (ie 1 January 2018); the CU300 previously written off is not capitalised, but CU2,200 of borrowing costs are capitalised during the year ended 31 December 2018.