

HIGHER EDUCATION INSTITUTIONS AND THE NEW UK GAAP

A comparison of current and future
accounting

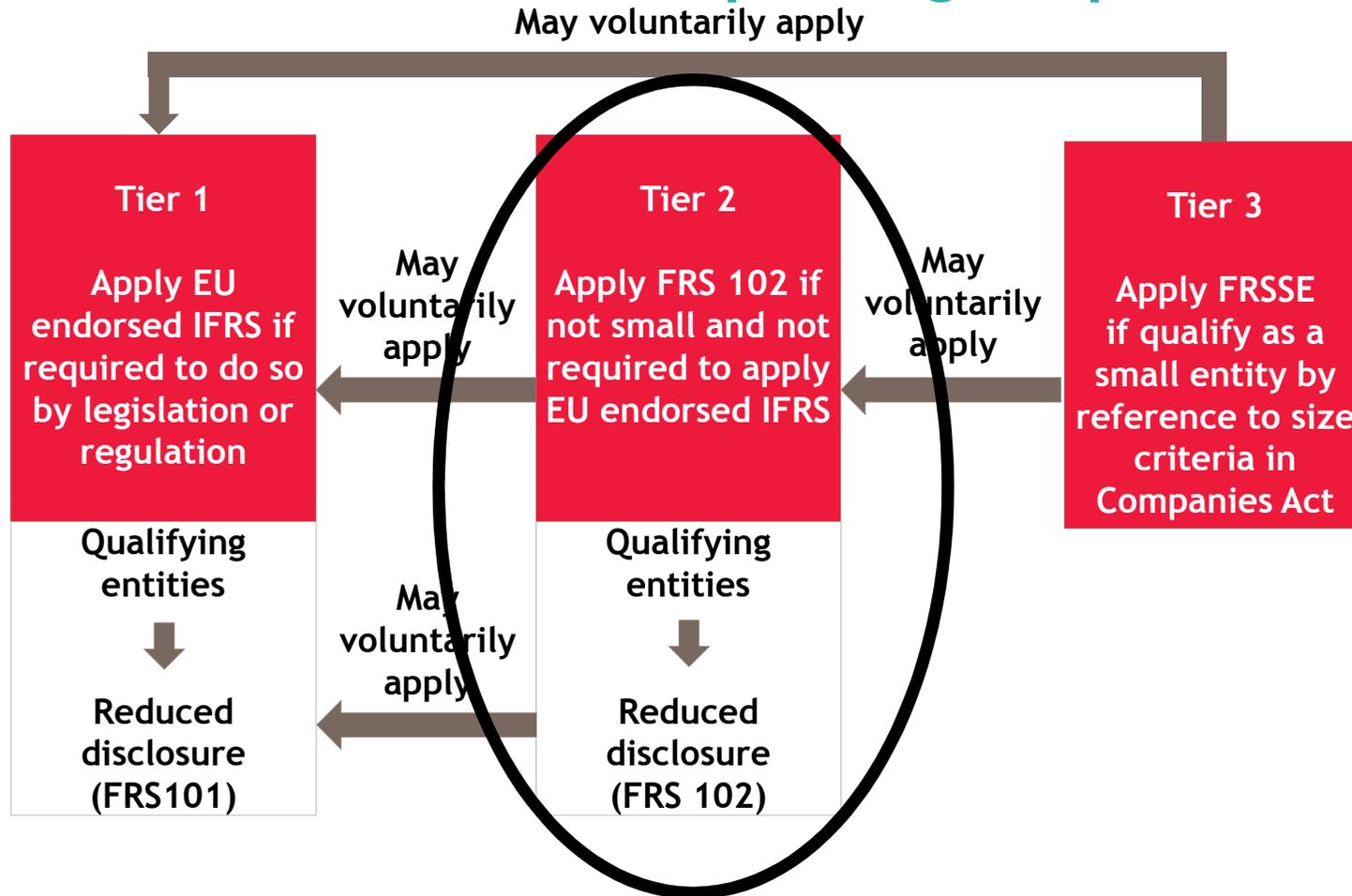




SESSION 1 - INTRODUCTION AND OVERVIEW

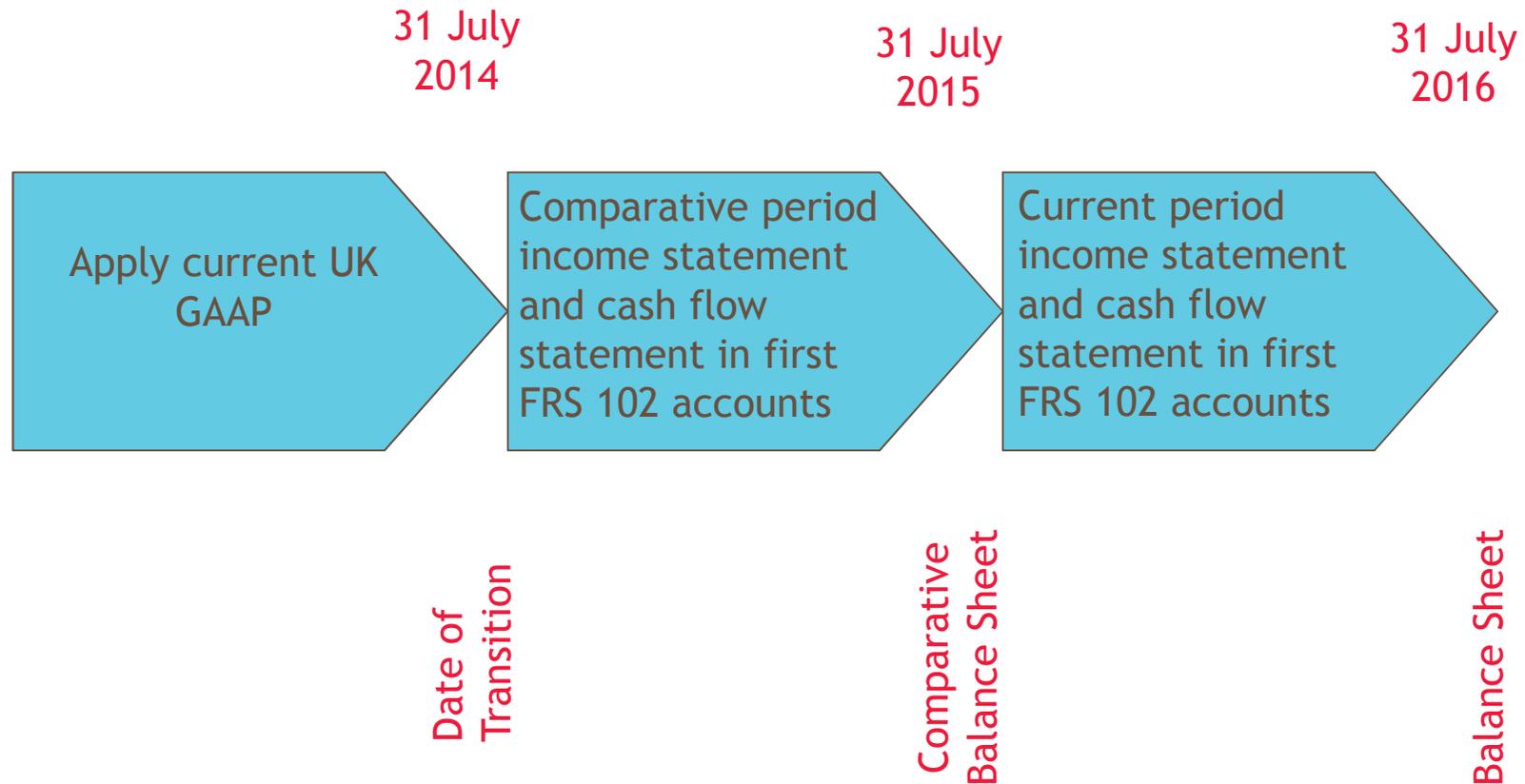
FRS 100

Application of Financial Reporting Requirements



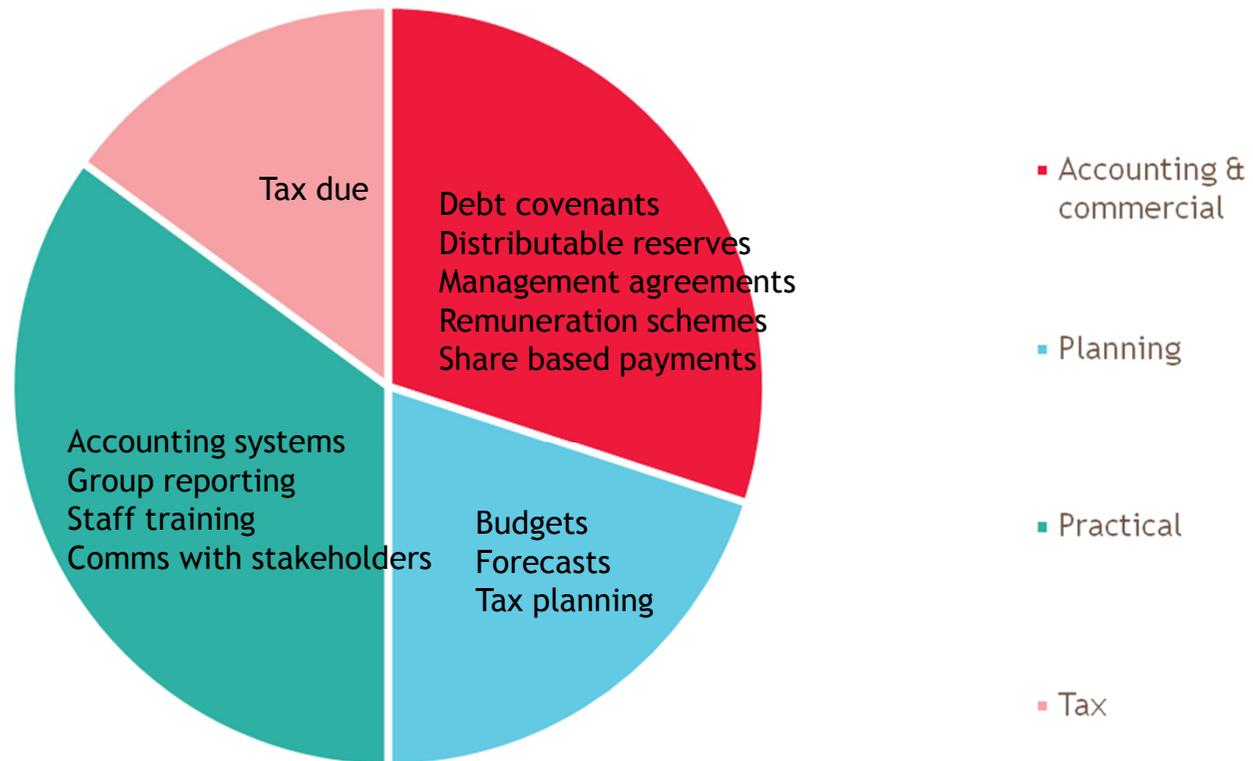
THE FUTURE OF FINANCIAL REPORTING IN THE UK

A timeline for accounts preparation



WHAT IT MEANS FOR YOU

Commercial and practical implications



SESSION 2 - REVENUE / INCOME



REVENUE & INCOME

Summary of differences

	Current UK GAAP	New UK GAAP
Goods / services	No obvious area of difference	
Donations	Matching principle applied	Not matched to expense. Consider “performance conditions”
Government grants	Matching principle applied	Not matched to expense. Consider “performance conditions”
Endowments	Recognise in STRGL and “recycled”?	Recognised in I&E. Consider “performance conditions”
Legacies	Refer to charity SORP?	Refer to charity SORP?
Knock-for-knock	Silent	Silent - can recognise?



REVENUE AND INCOME

FRS 102's revenue recognition criteria

- Amount can be measured reliably
- Probable that economic benefits will flow to the institution
- For services rendered, that the stage of completion can be measured reliably
- For sale of goods, that risks and rewards have been transferred
- Costs to date and to be incurred can be measured reliably



REVENUE AND INCOME

Donations, endowments and government grants

- **Performance-related conditions** (if any) affect the timing of income recognition. Implicitly, a performance condition may be sub-divided into “units of output” such that revenue is recognised in line with those outputs

“A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance”

- **Restrictions** (if any) affect the presentation of the resulting reserves in balance sheet, but NOT the recognition of income

“A requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition”



REVENUE AND INCOME

Performance related conditions

- Necessary to determine whether a performance-related condition actually exists.

Some resources are given with performance-related conditions attached which require the recipient to use the resources to provide a specified level of service in order to be entitled to retain the resources. An entity will not recognise income from those resources until these performance related conditions have been met. However, some requirements are stated so broadly that they do not actually impose a performance related condition on the recipient (FRS 102:34B.13-14)



REVENUE AND INCOME

Performance related conditions

- Judgement may be needed to determine whether a performance condition exists and whether it should be divided into “units of output”

Careful analysis of the [donation, endowment and grant] documentation may be needed to identify the relevant performance-related conditions and allocate portions of the grant across multiple performance-related conditions. It may be that employing a researcher (or the cost of that individual’s employment) represents a unit of output. (Draft SORP 17:31)

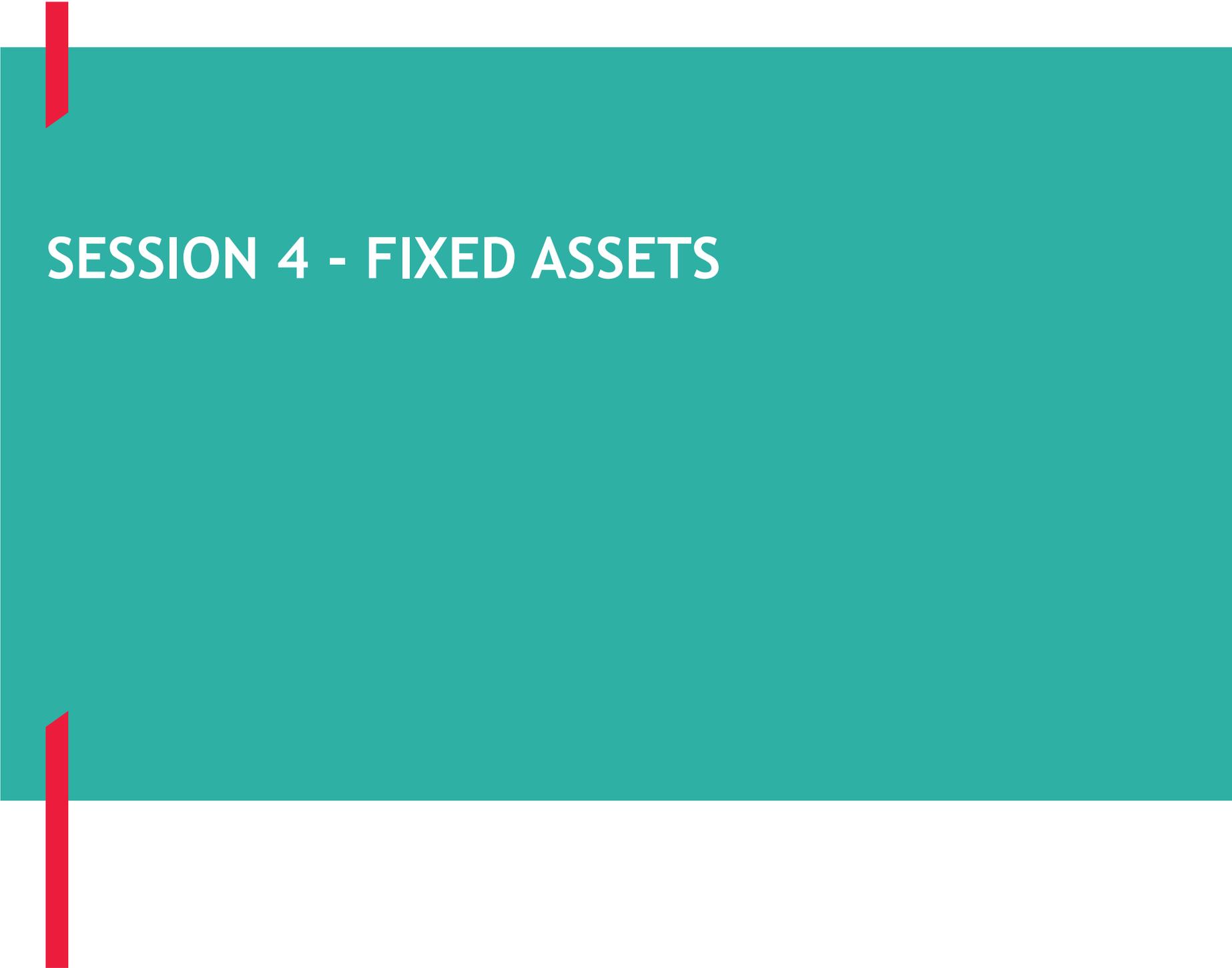


SESSION 3 - EMPLOYEE BENEFITS

EMPLOYEE BENEFITS

Summary of differences

	Current UK GAAP	FRS 102
DB Scheme (interest cost)	Expected return on gross assets less unwind of discount on gross liability	Interest expense / income based on net scheme deficit / surplus
Multi-employer scheme	Entirely off balance sheet	Liability recognised for deficit reduction plans
Group DB schemes	Generally DC accounting in each group entity	Surplus / deficit recognised by sponsoring entity (parent?)
Pension reserve	Presented on b/s	Not presented separately
Accrued sabbatical leave	Often not recognised	Recognised?
Holiday pay accrual / asset	Often not recognised	Recognised
Remuneration disclosure - Who?	Determined by Accounting Direction and CA06	ALSO required for “key management personnel”
Remuneration disclosure - What?	<ul style="list-style-type: none"> •Not necessarily a link to expense in I&E •Excludes NI Er’s 	<ul style="list-style-type: none"> •Amounts charged to I&E •Includes NI Er’s

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SESSION 4 - FIXED ASSETS

FIXED ASSETS

Summary of differences - Property

	Current UK GAAP	FRS 102
Policy of revaluation for owner occupied property	EUV	Fair value
Mixed-use property	Often determined by preponderance of use	Split accounting
Properties rented to other group companies	Accounted for as owner occupied (i.e. FRS 15)	Classified as investment property
Measurement basis for investment property	Fair value	Fair value unless “undue cost or effort”
Changes in fair value of investment property	Revaluation reserve	I&E account
Transition arrangements	n/a	Fair value as deemed cost

FIXED ASSETS

Summary of differences - Lease issues

	Current UK GAAP	FRS 102
Classification as finance lease v operating lease	“Bright-line” 90% numerical test	No “bright-line” 90% numerical test
Lessee disclosure	Annual commitment	Total commitment
Lessor disclosure (e.g. investment property)	Rents received in year	Total future rents receivable
Service concession arrangements	Generally concluded off-balance sheet treatment appropriate	Likely to be treated as on-balance sheet finance leases
Arrangements that contain a lease	No guidance	Analysis of whole contracts could give rise to some cash flows accounted for as finance leases



FIXED ASSETS

Service concessions - definitions

Service Concession Arrangement

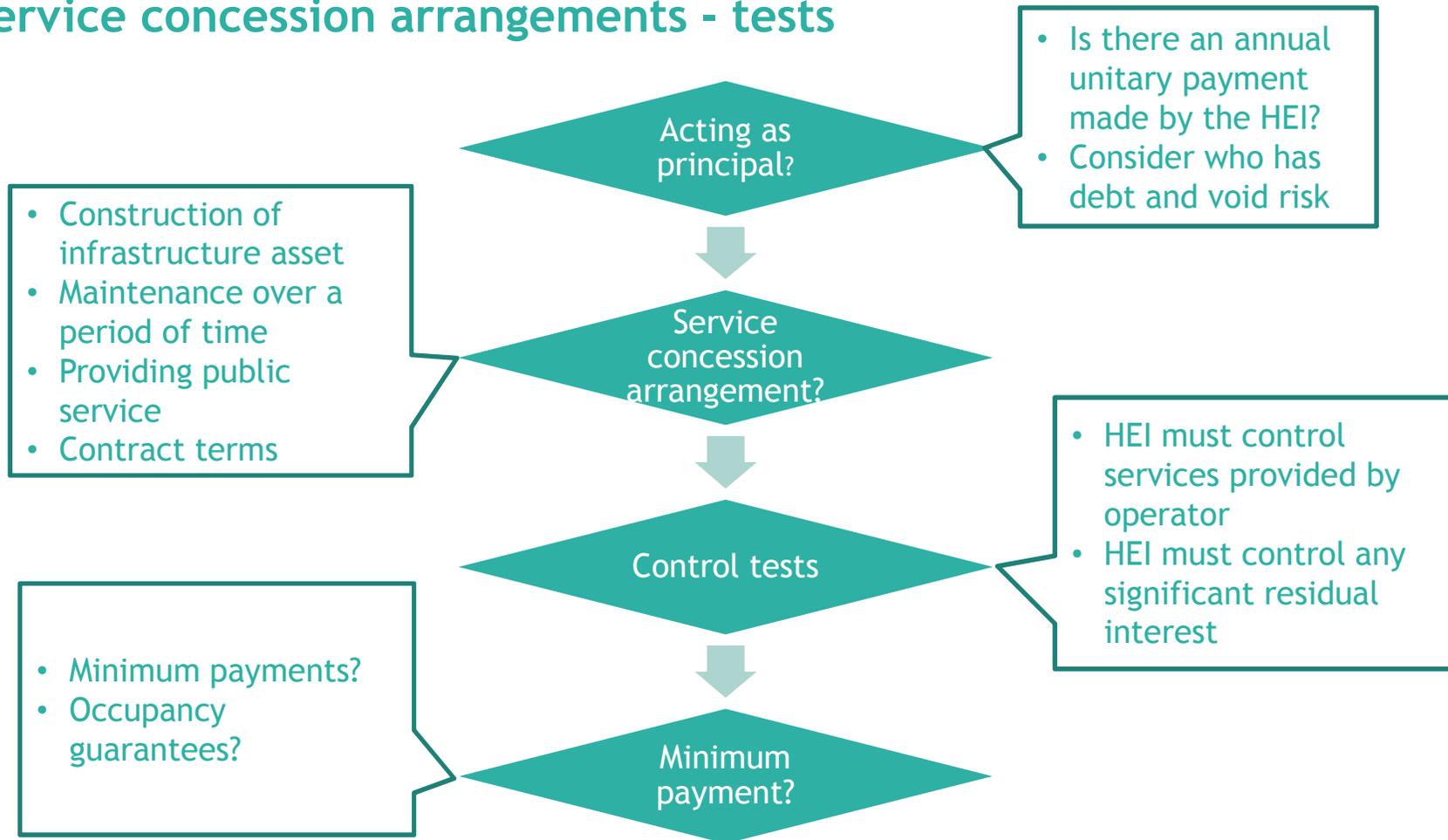
An arrangement where a public body or a public benefit entity (the grantor) contracts with a private sector entity (the operator) to construct (or upgrade), operate and maintain infrastructure assets for a specified period of time (the concession period).

Infrastructure Asset

Infrastructure for public services such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks.... Oh, and student accommodation!

FIXED ASSETS

Service concession arrangements - tests



FIXED ASSETS

Summary of differences - Investments

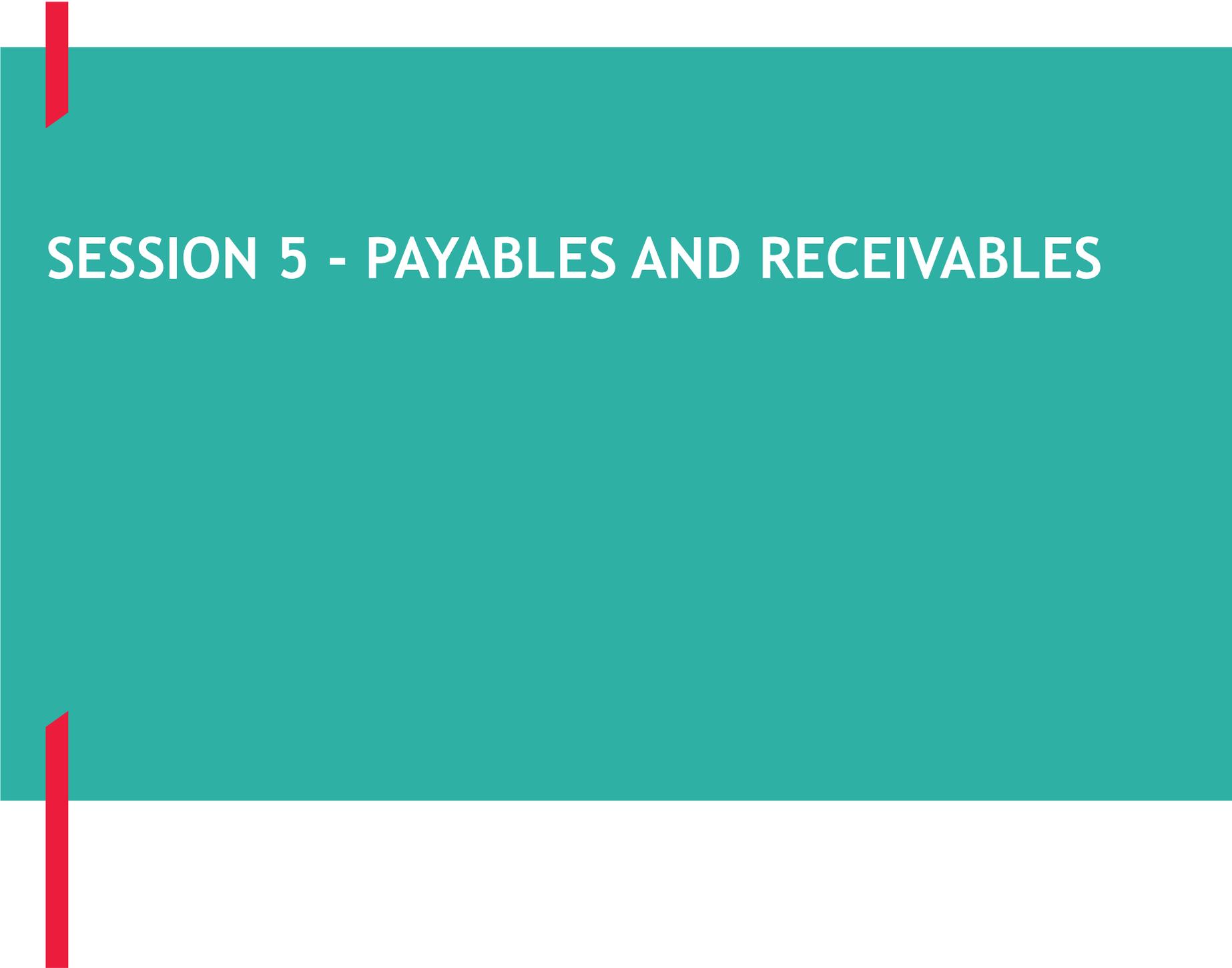
	Current UK GAAP	FRS 102
Investments in ordinary and preference shares	Mixed use of cost or fair value	Fair value (unless FV can't be "measured reliably")
Joint Ventures	JV v JANE (driven by substance of arrangement)	JCE v JCO v JCA (driven by legal nature of arrangement)
Equity-accounted associates and JVs	Recognise share of losses in excess of cost	Restrict losses to cost of investment
Equity accounting for "interests" in other not-for-profit entities (including student unions?)	No guidance	Refer charity SORP? (Based on voting as opposed to equity interests)



FIXED ASSETS

Summary of differences - Intangibles

	Current UK GAAP	FRS 102
In-substance gifts	Not identified - treated as an acquisition giving rise to negative goodwill	Accounted for as a one-off gain equal to net assets acquired
Intangibles on business combinations	Generally only goodwill (or negative goodwill) recognised	Could give rise to recognition of underlying intangibles
Software costs	Categorised as a tangible fixed asset	Not specified - scope for classifying as intangible

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SESSION 5 - PAYABLES AND RECEIVABLES

PAYABLES AND RECEIVABLES

Summary of differences

	Current UK GAAP	FRS 102
Classification of payables and receivables	n/a	Basic v non-basic classification
Measurement	Transaction amount (net of issue costs)	Basic - Transaction amount (net of issue costs) Non-basic - fair value
Changes in fair value	Generally n/a	Basic - n/a Non-basic - I&E
Offsetting payables and receivables	Both require legal right of offset and an expectation of simultaneous settlement, but were requirements introduced by FRS 25 well understood?	



PAYABLES AND RECEIVABLES

Examples of non-basic payables and receivables

- 1) Loan with initial interest rate of 2% increasing annually by RPI
- 2) 25 year loan with initial interest rate of LIBOR+2%, but from year 5 onwards bank has option to fix the rate, as well as every 5 years thereafter.
- 3) Loan payable/receivable with a return equal to percentage of borrower's profits
- 4) Investment in convertible debt of another entity
- 5) Annual contract for the supply of cleaning fluid where the amount payables is for a fixed price per litre overlaid with an additional amount either paid or refunded based on movements in the spot price of gold.
 - Overage payable on construction contracts
 - Long-term energy contracts



SESSION 6 - SWEEP ISSUES

Other ad hoc differences

First-time adoption including transition exemptions

Reduced disclosure framework



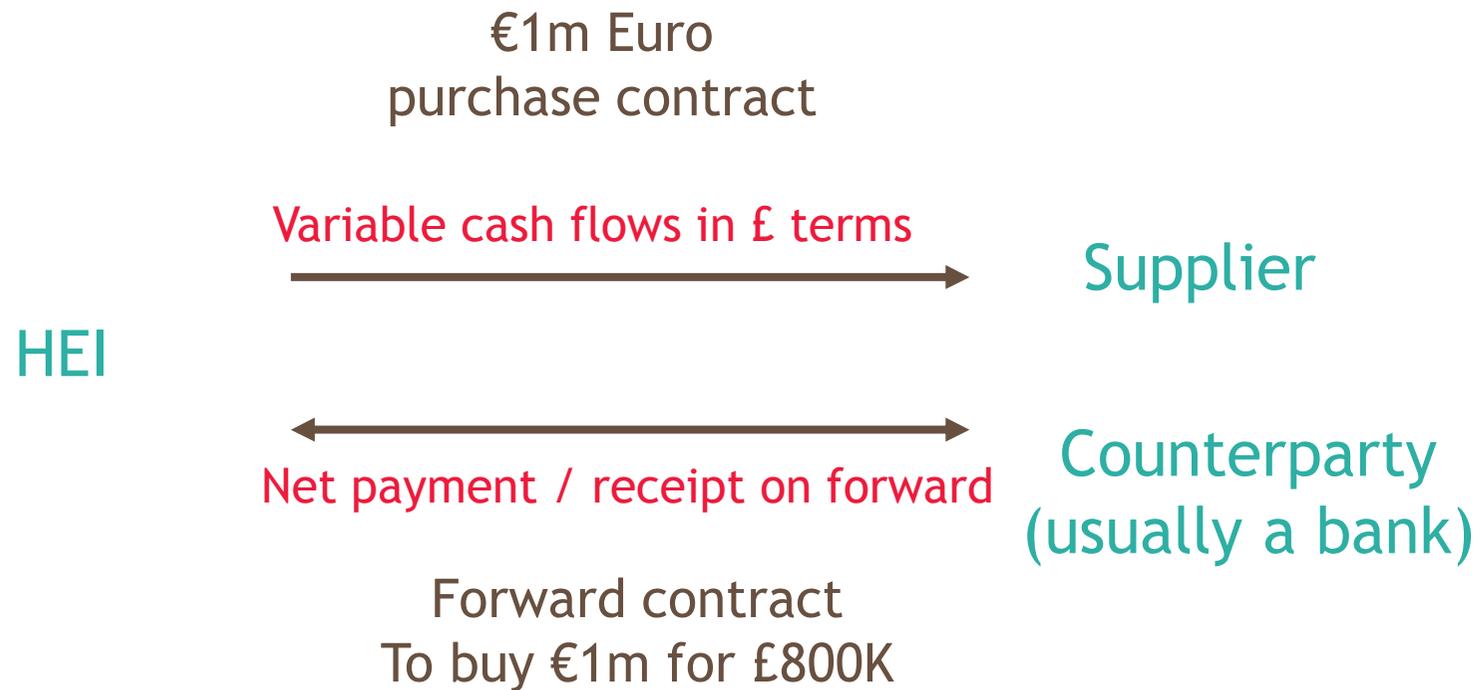
OTHER AD HOC DIFFERENCES

Summary of differences

	Current UK GAAP	FRS 102
Derivatives - recognition	Off balance sheet	On balance sheet at fair value.
Changes in fair value	n/a	Reserves if hedge accounting, otherwise I&E
Requirements for hedge accounting	None - achieved automatically through being off balance sheet and accounting for cash flows only when paid/received	<ul style="list-style-type: none"> • Available only for certain hedging arrangements • Available only if hedge documentation put in place • “Effectiveness” of hedge must be tested annually, with “ineffectiveness” recognised in I&E

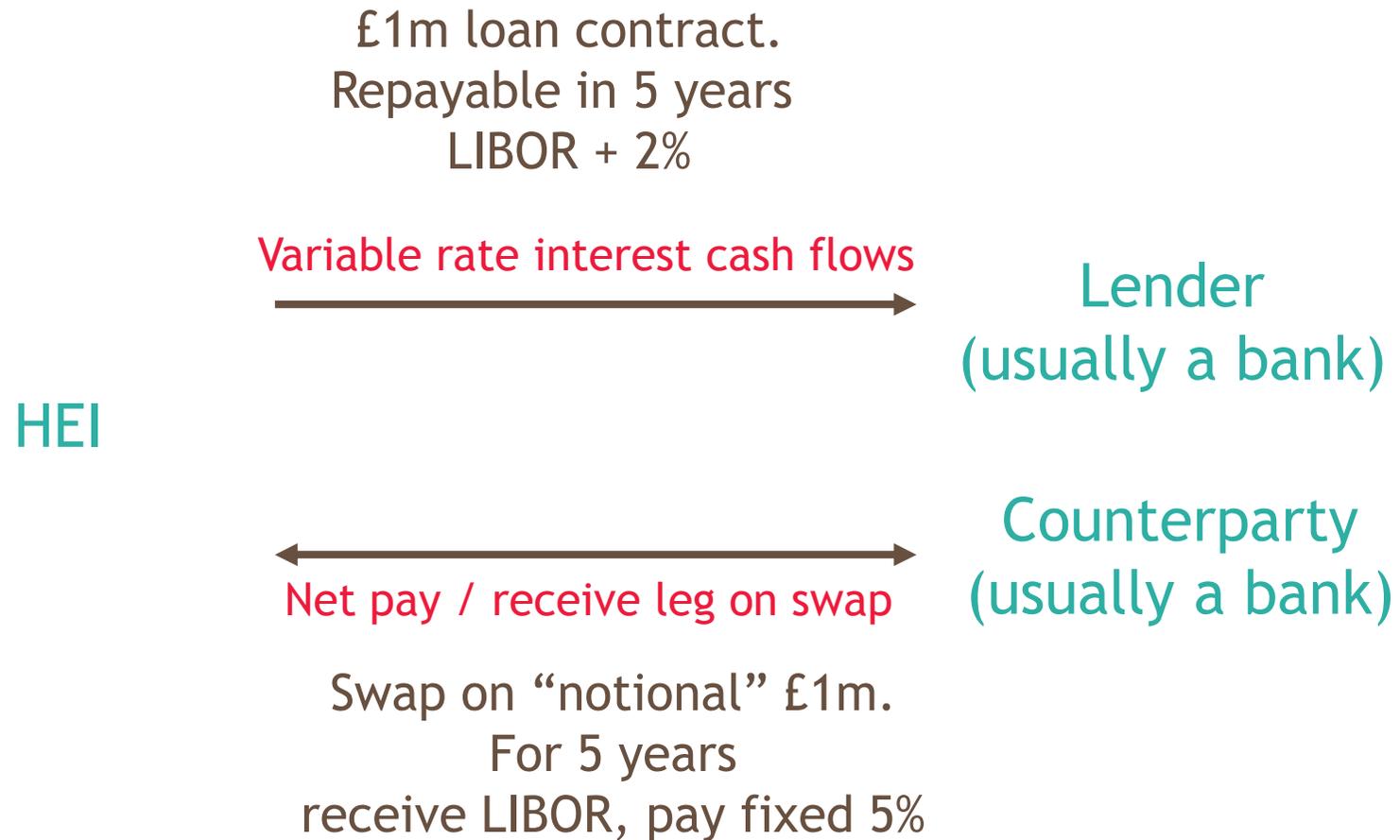
STANDALONE DERIVATIVE

Forward contract hedging a future purchase



STANDALONE DERIVATIVE

Floating to fixed swap linked to variable rate loan



OTHER AD HOC DIFFERENCES

Summary of differences

	Current UK GAAP	FRS 102
Cash flow statement	Changes in cash on demand and overdrafts	Includes cash on deposit (generally of up to 3 months)
Cash flow statement	Net debt note	Net debt note not required
Prior year adjustment	Required for fundamental errors	Required for material errors
Heritage assets	Presented in notes as separate category of fixed asset	Presented separately on face of balance sheet
Goodwill	If UEL > 20 years must do annual impairment review	Must be a finite period and if unable to make a reliable estimate then must amortise over a period of no more than 5 years.

OTHER AD HOC DIFFERENCES

Summary of differences

	Current UK GAAP	FRS 102
Leasehold premiums paid	Treated as a fixed asset	Fixed asset or prepayment of rent?
Deferred tax	Exemptions from providing on certain timing differences	Fewer exemptions (notably will be required for items carried at fair value)
Related party disclosures	Name of related party to be disclosed	Relationship needs to be disclosed, but not the name
Agricultural assets	Accounted for at historic cost	Accounting policy choice: cost or fair value



FIRST-TIME ADOPTION OF FRS 102

Key exemptions from full retrospective application

- Fair value as deemed cost for property assets
- Past revaluations as deemed cost for property assets
- Business combinations
- Lease incentives



FIRST-TIME ADOPTION OF FRS 102

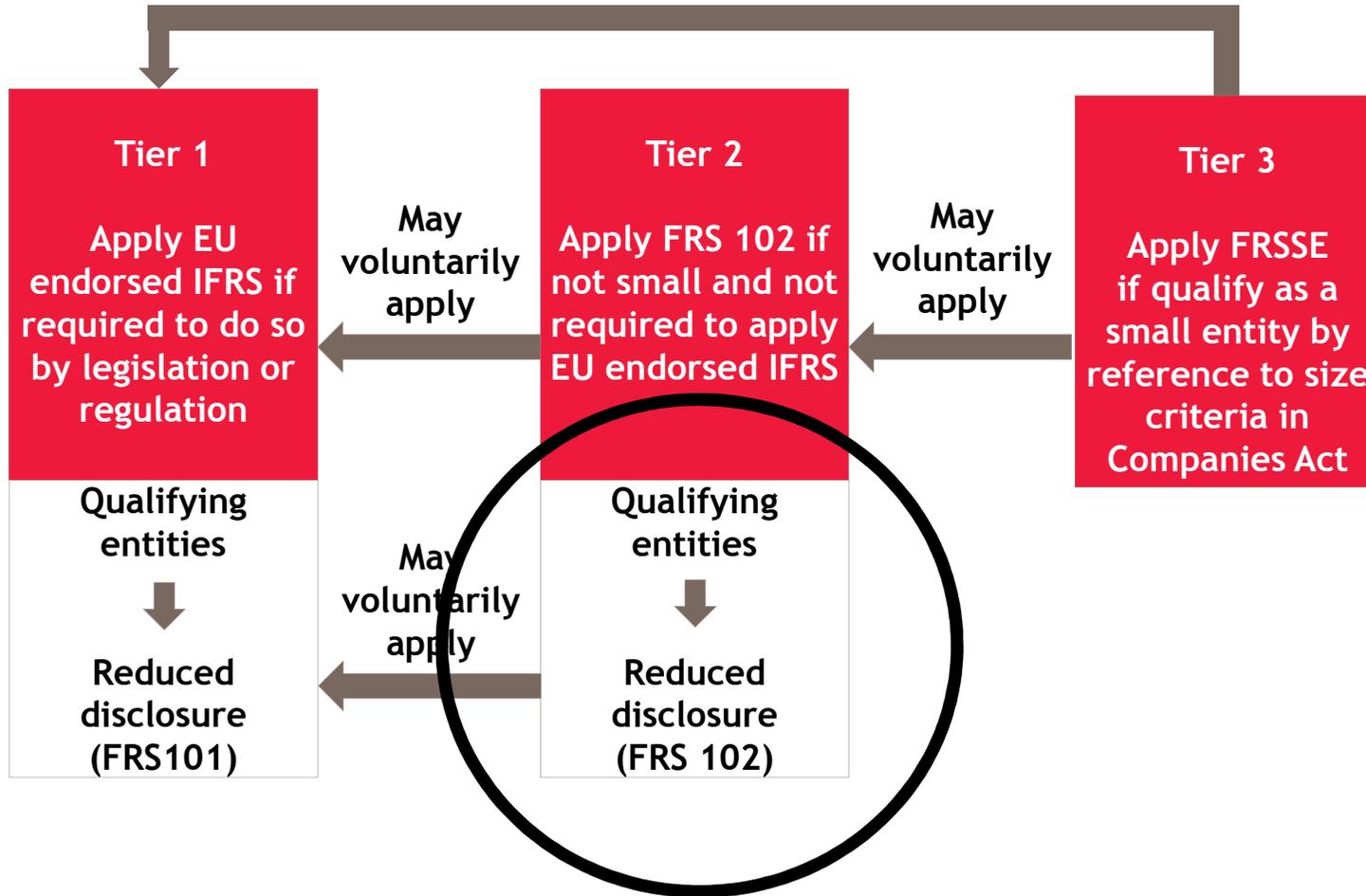
Reconciliations from old to new UK GAAP

- Description of each accounting policy change (distinguishing identified errors from adjustments arising as a result of new UK GAAP)
- Reconciliation of net assets at:
 - date of transition (31 July 2014); and
 - comparative balance sheet date (31 July 2015)
- Reconciliation of the surplus/deficit for the year to 31 July 2015
- See BDO guide Appendix 3 for examples (in your packs)

REDUCED DISCLOSURE FRAMEWORK

Disclosure exemptions for qualifying entities

May voluntarily apply





REDUCED DISCLOSURE FRAMEWORK

Disclosure exemptions for qualifying entities

- Cash flow statement
- Payables, receivables, investments and derivatives (“financial instruments”)
- Key management personnel remuneration (companies act requirements or disclosures required by regulators may still apply)
- Related party transactions between *wholly owned* entities in a group
- [A few others that are highly unlikely to be relevant for HEIs!]



SESSION 7 - UNIVERITY CHALLENGE

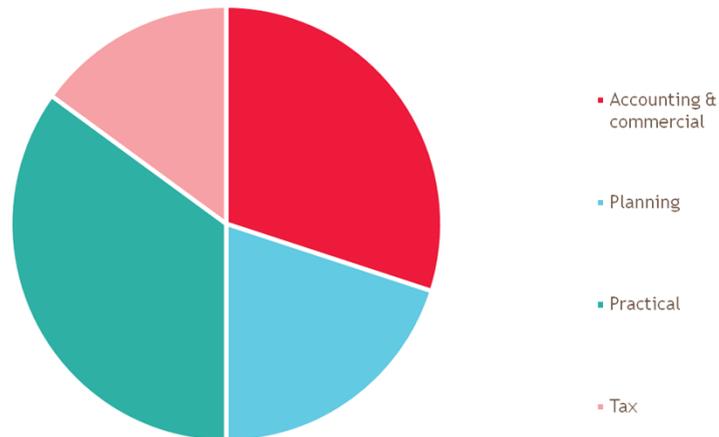


SESSION 8 - BRINGING IT ALL TOGETHER

RECAP

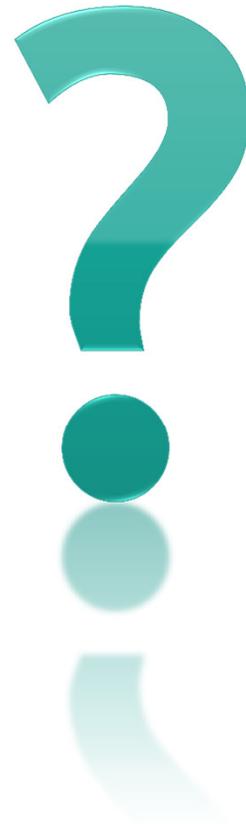
Over to you

- 1) What have you learnt?
- 2) What will you be thinking about back in the office with regards to preparing for FRS 102?





ANY MORE QUESTIONS
Last Chance!





**THE END.
THANK YOU FOR PARTICIPATING.**

GIVE YOURSELF A ROUND OF APPLAUSE!