End of the line.

UK GAAP has reached the end of the line and is being replaced by a new set of standards.

Paul Jones, PwC assurance director, issues a timely reminder that new UK GAAP is here and asks: Are you ready?

Financial reporting is continually changing but for UK GAAP reporters it's changing in a big way. Like many accountants, pretty much my whole career has been spent accounting under UK GAAP - there are standards still in issue older than I am. But time moves on and companies reporting under UK GAAP will need to adopt new accounting standards for periods commencing on or after 1 January 2015. That means many companies are almost half way through their first year under new UK GAAP.

But how many have clear plans for the work they need to do by year end? If not, now is the time to act.

So what is the new framework?

A sensible place to start and hopefully this won't come as a surprise:

- FRS 102 – replaces the existing mix of guidance (FRSs, SSAPs, UITFs) in a single much shorter standard (including FRS 103 for insurance contracts)
- FRS 101 – based on EU IFRS but with reduced disclosures for parent entities and subsidiaries of groups that prepare publicly available consolidated financial statements.

Together with EU IFRS (still required for listed groups) and the Financial Reporting Standard for Smaller Entities (FRSSE) – more on this later - they make up the new financial reporting framework.

Why should you pay attention?

Many entities underestimate the effort needed and the potential impact of conversion. IFRS adoption by listed groups in 2005 was a complex and time-consuming process, resulting in conversion projects lasting many months. Whilst there may be many entities that are only marginally affected by the changes, a conversion from old to new UK GAAP could be, if you are not fully prepared, a challenging exercise.

Is FRS 102 similar to current UK GAAP?

Similar, but not the same - there are some significant differences. The rules for financial instruments are more complex and will require detailed analysis and potentially the involvement of experts. And FRS 102 doesn't just impact complex instruments such as derivatives, now recognised on balance sheet at fair value - watch out for increased volatility in the income statement unless hedge accounting applies. Basic instruments such as loans at non-market interest rates need to be identified and carried at amortised cost.

Have you written insurance contacts with no significant insurance risk, such as many unit linked contracts? The accounting for these will bear little resemblance to the old basis. Other areas of change include business combinations, employee benefits and investment property. It's important to check which, if any, impact you. And don't forget that there are also one-off transition arrangements that you may wish to take advantage of, such as revaluation of certain fixed assets to a new deemed cost.

I'm a small company – what are my options?

You may well be applying the FRSSE, however this standard will be replaced by the new FRSSE for 2015. And this new FRSSE will itself be withdrawn for 2016. So what happens next?

There are 2 draft standards that will be of interest – FRED 58 (Draft FRS 105) on micro entities and FRED 59, a new section within FRS 102 for small entities. The accounting in these standards is consistent with, or a simplified version of, "full" FRS 102 but with considerably reduced disclosure. The good news is that the size limits for small entities are higher than the old FRSSE so more companies should be able to adopt. We expect the standards to be issued soon and be applicable for 2016 year ends. There is no official word on early adoption yet.

What if I'm already preparing IFRS figures for group reporting?

Qualifying entities will need to consider whether they wish to use the reduced disclosure framework in FRS 101. But bear in mind the limited number of accounting differences between EU IFRS and FRS 101 and whether group reporting has been prepared to a higher materiality. Sadly the FRC didn't consider overseas territories when developing the standards and some UK company law requirements are embedded. This has been a hot topic – if in doubt consult.

So what should you be thinking about now?

New UK GAAP provides a number of different options and now is the time to consider your choice if you haven't already. Have you carried out a comparison exercise to understand the changes and potential accounting choices? Factors to consider include the impact on tax and distributable reserves, people resource and training, systems and processes for any new data requirements and key financial ratios such as any loan covenants.

Remember, this is not just an accounting change – the decisions you make could affect your company's future financial position so it's worth taking the time to get it right. And if in doubt, ask for help.

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