Council
16 July 2015
Financial Reporting Standard 102

Classification	Public
Purpose	For noting
Issue	The Financial Reporting Council has replaced existing UK GAAP (Generally Accepted Accounting Principles) with Financial Reporting Standard 102 (FRS 102). This paper sets out the implications for the GOsC of the introduction of FRS 102.
Recommendation	To note the impact of FRS 102 on the GOsC financial statements.
Financial and resourcing implications	None, any amendment to the financial statements will be undertaken by the Head of Registration and Resources.
Equality and diversity implications	None
Communications implications	None
Annexes	None
Author	Matthew Redford

Background

1. Section 40 of the Osteopaths Act 1993 requires the GOsC to *'…keep proper accounts of all sums received or paid by it and proper records in relation to those accounts.'*

2. While the Osteopaths Act is silent on how GOsC should produce its financial statements, the accounts have been prepared with a view to adopting best practice from the not for profit/charity sector, in particular, to ensure the disclosures which support the financial statements are as full as possible.

3. There is an inconsistent approach taken by our healthcare regulation peers as to how financial statements are produced. This is compounded by some regulators also being registered charities.

4. GOsC accounts are generally consistent with UK GAAP (Generally Accepted Accounting Principles). However, the Financial Reporting Council has replaced current UK GAAP with Financial Reporting Standard 102 (FRS 102), which will lead to changes in the way the GOsC prepares its financial statements.

5. This paper outlines for Council the impact of FRS 102 on the GOsC financial statements.

Discussion

6. FRS 102 is applicable in the UK and Republic of Ireland with effect from accounting periods beginning on or after 1 January 2015. This means that year-end accounts dated 31 December 2015, will be the first prepared under the new FRS.

7. For the GOsC, the first financial statements to be prepared under the new FRS will be for the year-end 31 March 2016. However, to ensure consistency, the comparative financial periods will also need to be restated in line with FRS 102. For the GOsC, the first comparative set of financial statements to be restated under the new FRS will be for the year-end 31 March 2015, with an opening balance sheet position for 1 April 2014.

8. There is an expectation that the FRS is only updated once every three years, providing more stability in financial reporting.

9. For many organisations the impact of the new FRS will be significant and may lead to costs being incurred as systems are amended. Audit Committee can take assurance that this is not the case for the GOsC, although there is work required in preparation for the new FRS.

10. There are some areas where the new FRS may impact the GOsC financial statements and each of these have been described below:

Revaluation of own use premises

11. We have been aware that the new FRS contains the potential for GOsC to undertake a one-off revaluation for its own use premises. The one-off valuation is on a 'transition date' which is then taken as being the cost value. The transition date for the GOsC is 1 April 2014, i.e. the beginning of the first set of comparative financial statements prepared under the new FRS.

12. The impact of this under the new FRS would be that the value of Osteopathy House, currently contained in fixed assets on the Balance Sheet, would increase to the market value, creating a revaluation reserve. The amount of depreciation expensed to the Income and Expenditure account may change in future years, affecting the amount of surplus/deficit. On a Balance Sheet, a transfer would then take place between the revaluation reserve and the general reserve so that the general reserve was not affected by the changed depreciation expense.

Accrued holiday pay

13. Under existing GAAP there is no requirement to account for holiday pay; however, this will change under the new FRS. While it is important the HR Manager is capturing information about annual leave efficiently, the GOsC annual leave year and financial year run concurrently, which means that the calculation is simplified.

14. In the event that employees have untaken holidays at the end of the financial year which are to be paid for in the next financial year, an appropriate accrual for such an entitlement will need to be made.

Revenue recognition

15. How GOsC recognises its revenue always features heavily as part of the audit testing. The new FRS will not change the approach GOsC takes to recognition of registration fee income, although it is worthwhile outlining a subtle difference around risk of default.

16. Risk of default: under the existing rules, if there is a significant risk there will be a default, an adjustment to the amount of revenue being recognised should be made. Under the new FRS, where the risk considered so high that it is not probable payment would be received, no revenue should be recognised until receipt is probable.

17. Another area worth commenting on under revenue recognition is in relation to the amount of revenue recognised on service/grant contracts. In summary, each contract will need to be considered in detail to determine if there are any changes to the timing of the milestones, or amount of revenue to be recognised, although the existing rules and the new FRS are similar.

Corporation tax

18. At this stage, it is unknown what, if any, the impact of the new FRS will have on Corporation Tax. However, as GOsC only pays Corporation Tax on interest earned, it is unlikely that the impact will be significant, if at all.

Terminology

19. The new FRS uses slightly different terminology to the existing UK GAAP, for example, the Balance Sheet is called the 'statement of financial position', however, it does provide for organisations to use different/existing titles as long as they do not mislead the reader. Therefore, GOsC can continue with its existing account headings.

Disclosure requirements

20. There are some disclosure requirements which may impact on the GOsC financial statements. These are set out below:

21. Debtors: currently '*the amount falling due after more than one year should be shown separately for each item included under debtors'* on the face of the Balance Sheet. Under FRS 102 this information will be disclosed in a note to the accounts unless the amount is considered *'material in the context of total net current assets'*.

22. Creditors: currently, *'amounts falling due within one year and after one year must be shown separately for each of these items'*. The new FRS takes a more prescriptive approach and requires that all creditors should be classified as being due within one year unless there is an 'unconditional right' to defer payment for at least 12 months.

23. Planned major disposal of assets: if at the Balance Sheet date, an organisation has a binding sale agreement for a major disposal of assets, a full note will need to be provided.

Format of the accounts

24. The accounts will not change significantly following the introduction of FRS 102. The greatest change will be the Cash Flow Statement (now the statement of cash flows) which will see:

    a. Reconciliation of the movement between cash and cash equivalents, not just cash;

    b. Reduces the number of cash flow headings;

    c. Reconciles profit to cash flows;

    d. Fewer supporting notes.

Conclusion

25. The Audit Committee concluded that it was essential that the GOsC's approach to keeping proper records and accounts, while undefined, needed to continue to follow best practice. This logically implied that the GOsC should move to FRS102. However, further work was required on understanding the full impact of the change particularly around the valuation of land and buildings. It recommended that the Executive undertook this work in advance of the November Council meeting at which relevant decisions would be made.

Recommendation: to note the impact of FRS 102 on the GOsC financial statements.