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The future of Irish GAAP
Preparing for change

Overview

Irish companies generally prepare their financial statements on one of two bases: full IFRSs or existing Irish standards. But this is about to change. Current Irish accounting standards are to be replaced with FRS 102, a new, much shorter standard, based on the IFRS for SMEs. In addition, a new option for some companies to follow the recognition and measurement bases of IFRSs, but with reduced disclosures, has been introduced by FRS 101.

Irish GAAP is about to undergo its most significant and wide ranging change in a generation. All entities or groups which are not required to use IFRSs will be affected by the change.

The accounting options in a nutshell

	IFRS	FRS 101 (IFRS with reduced disclosures)	FRS 102 (Replacement for current Irish GAAP)	FRSSE
Listed group consolidated financial statements	✓			
AIM/ESM group consolidated financial statements	✓			
Listed company individual financial statements	✓	✓*	✓	
AIM/ESM company individual financial statements	✓	✓*	✓	
Unlisted group consolidated financial statements (of all sizes)	✓		✓	
Unlisted company individual financial statements of large and medium-sized companies	✓	✓*	✓	
Unlisted company individual financial statements of small companies	✓	✓*	✓	✓

*FRS 101 is available for individual financial statements only where the entity meets the definition of a "qualifying entity"

The next steps

The new regime will be mandatory for periods beginning on or after 1 January 2015, although companies can apply the new standards early.

Reporters will want to take the opportunity to re-evaluate the choice of accounting framework used to prepare their individual parent and subsidiary financial statements. Groups with subsidiaries already applying IFRS will need to decide whether to take advantage of the reduced disclosure framework in FRS 101. Those groups with subsidiaries applying Irish GAAP need to weigh up whether to move from current Irish GAAP to IFRSs (with or without reduced disclosure) or to FRS 102.

For individual companies, understanding the accounting implications of each regime and the resulting consequences for cash tax, distributable profits, earn-out agreements and loan covenants is critical.

A Deloitte special financial reporting brief available at **www.deloitte.ie/** sets out the developments in more detail

Contacts

These developments raise the following key questions for the directors of Irish companies:

- What accounting frameworks are available to the company and which is most suitable to its circumstances?
- What are the likely impacts on the company's tax costs and tax compliance activities?
- Understanding and planning for the cash tax and tax compliance implications of the change of accounting framework will be an important activity. The starting point for tax is accounting profit and tax treatment is often driven by the accounting treatment. What impact will the choice of regime have on the amount and timing of tax paid?
- The continuing rise of dividend payments to shareholders requires finance teams to plan ahead to ensure continuing sufficiency of distributable reserves and cash at the parent company and throughout the group structure. Will the use of a different GAAP impact on the ability of group companies to pay dividends up through the group structure?
- Will the changes affect key metrics used for other purposes, for example, loan covenants, earn outs and remuneration schemes?
- Given the likely costs and effort of converting a number of companies to a new accounting framework, might this be the time to simplify group structures?
- Will more stringent requirements on derivatives and hedge accounting require additional focus on this area?
- Does the company have sufficient skills in-house to manage the conversion to a new accounting framework and can the current accounting systems support a revised chart of accounts?

How Deloitte can help

Our integrated team of accounting and taxation specialists can assist you in evaluating the options available to you under the revised regime:

Conversion planning

- Impact assessment to help determine the most appropriate accounting framework to adopt.
- Training for staff and project leaders.
- Advice on key conversion issues, including disclosures and reporting requirements.

Cash tax and tax compliance activities

- Assessment of the tax implications of the changing accounting framework in terms of cash tax and effective tax rate.
- Interaction with iXBRL tax filing requirements.

Management of other related issues

- Advice on identification and management of changes to metrics used for loan covenants, earn-outs, remuneration schemes etc.
- Provision of resource and project management skills to manage the conversion process.

Distributable profits

- Carrying out a distributable reserves healthcheck.
- Advising on the options available to the company to maximise distributable reserves.
- Assessing the advantages and disadvantages of different methods to guide you towards the most appropriate solution based on your particular facts and circumstances.
- Providing written advice on the accounting treatment for any transaction chosen, including analysis of the required accounting double entries.
- Providing experienced project management resource to develop a step-by-step project plan.

Treasury services

- Assessment of hedging strategy against the requirements of the appropriate accounting framework.
- Designing appropriate and compliant hedge documentation and effectiveness testing.
- Assistance with understanding the treasury tax implications of the change in accounting framework.
- Assistance with determining the fair value of financial instruments including derivatives.

Corporate simplification

- Assistance with projects to simplify and streamline group structures.

Who you can contact

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