

# 20 Common Accounting Errors – and How to Fix Them

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## **Section 1**

**Property, plant & equipment**

## **Section 2**

**Other asset accounting issues**

## **Section 3**

**Loans & leases**

## **Section 4**

**Provisions**

## **Section 5**

**Income recognition conundrums**

## **Section 6**

**Other presentational issues**

## **Section 7**

**Direction of travel**



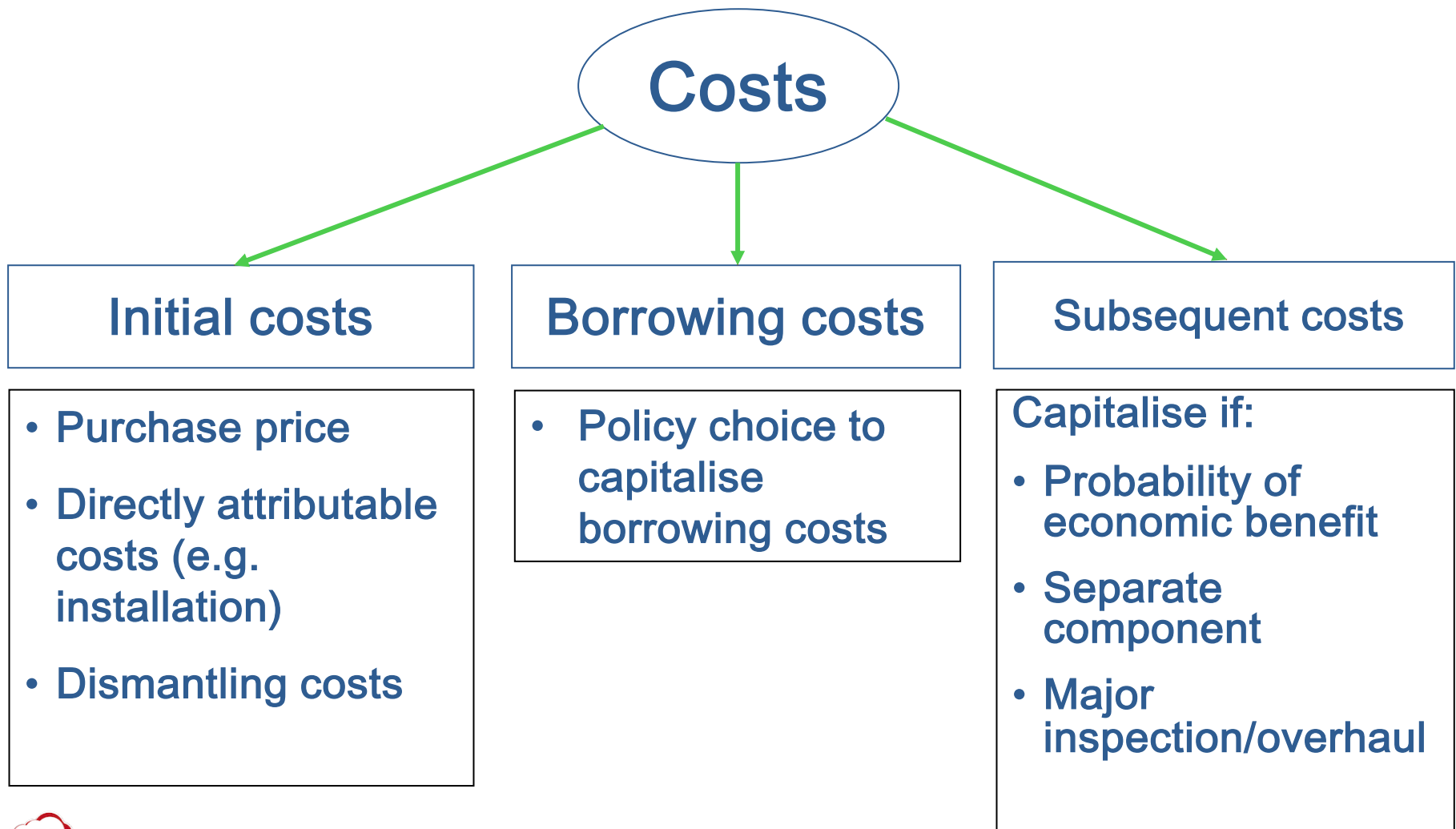
# Section 1: Property, plant & equipment

# Question 1

**A client is replacing its roof.**

**Should this be treated as a fixed asset  
– or should the costs be expensed?**

# Property, plant & equipment



# Component accounting

‘Parts of some items of property, plant and equipment may require replacement at regular intervals. An entity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity.’

‘If it is impracticable for an entity to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part and adjusting it for depreciation and impairment.’

# Question 2

We have taken on a new client. They have a valuable property asset which is being depreciated over 50 years. The NBV will reduce to zero after 50 years.

Should residual value really be ignored as it is here?

# Residual Value

The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were **already of the age and in the condition expected at the end of its useful life.**

*FRS 102 Appendix*

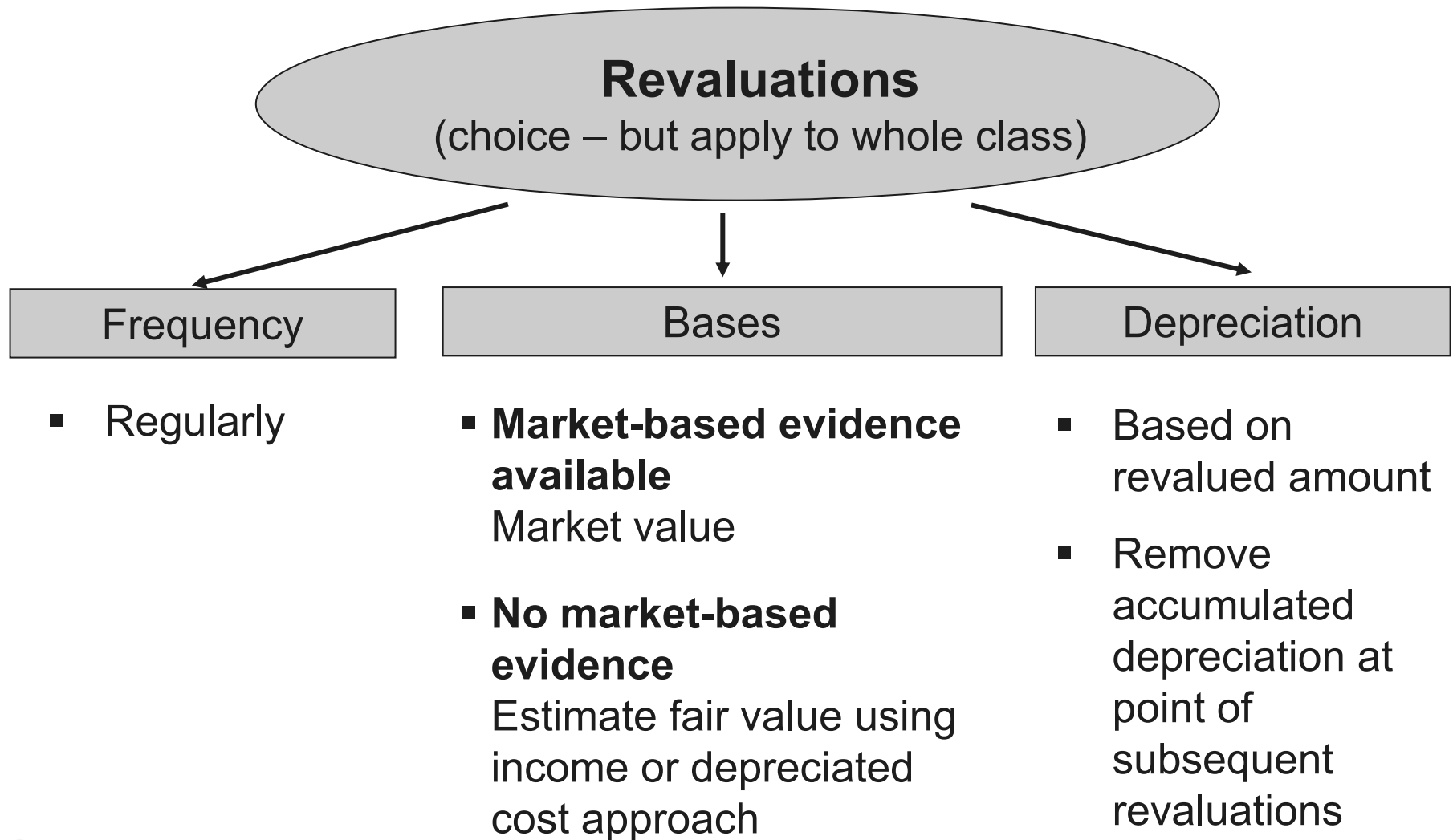
*What will the asset look like at the end of its useful life?*



# Question 3

**If fixed assets are being revalued regularly, is it right to assume that no depreciation will be charged?**

# 'Alternative accounting rules'



## Section 2: Other asset accounting issues



# Question 4

**We have a client which is renting out part of its property which is not being used.**

**Should this property be accounted for as PPE or as an investment property?**

# Investment property

## Definition

'A property held to earn rentals or for capital appreciation or both rather than for the production/supply of goods & services, administrative purposes or sale in ordinary course of business'

## Mixed use

Mixed use property shall be separated between investment property and PPE if the resulting portions could be sold separately or leased out separately under a finance lease

Fair value accounting under FRS 102 / Cost model under FRS 105

# Question 5

**A client has entered into a 'software as a service' (SaaS) cloud computing arrangement with a supplier where the contract conveys to the customer a right to receive access to the supplier's application software over the contract term.**

**Because the outlay has been significant, the client wants to capitalise the costs. Is that ok?**

# Software as a Service

## Less likely

Many cloud computing arrangements provide a service & no software intangible asset can be recognised

## More likely

Where there is control over the software - directly attributable costs include

- Configuration / customisation
- Legal registration fees
- Borrowing costs capitalised

# SaaS: possible accounting treatments

	Accounting Treatment
<b>Early Stage</b>	
Develop a business case	Expense
Select a provider	Expense
<b>Installing and implementing</b>	
Purchase and leasing new assets such as servers and PCs	Capitalise
Configure and set up of the SaaS application software	Expense
Developing bridging modules for existing on premise software	Capitalise
Developing bridging modules for other SaaS applications used by the Company	Expense
Data cleansing and migration costs	Expense
<b>Post implementation</b>	
Employee training	Expense
Purchase of eLearning materials and manuals	Capitalise
Testing and ongoing maintenance	Expense
On-going access to SaaS application	Expense

<https://www2.deloitte.com/ie/en/pages/audit/articles/accounting-for-software-as-a-service-cost-a-cloudy-topic.html>



# Question 6

**Companies are investing more money in their websites to create a virtual platform for business.**

**Can these costs be capitalised?**

# Website development costs

## General approach

Intangible asset

Consistent policy

Advertising or promotional costs must be expensed

## Recognition criteria

Technically feasible

Intention to complete intangible and use/sell it

Probable future economic benefits

Availability of adequate technical, financial and other resources

Ability to measure attributable expenditure

*NB: FRS 102 does not specifically address website development costs, so clear accounting policy needed and may make reference to IFRS...*

# Question 7

The market for our product has fallen off the edge of a cliff post year end.

Should we mark the stock value down?

# Accounting for stock

**Lower of cost and net  
realisable value (NRV)**

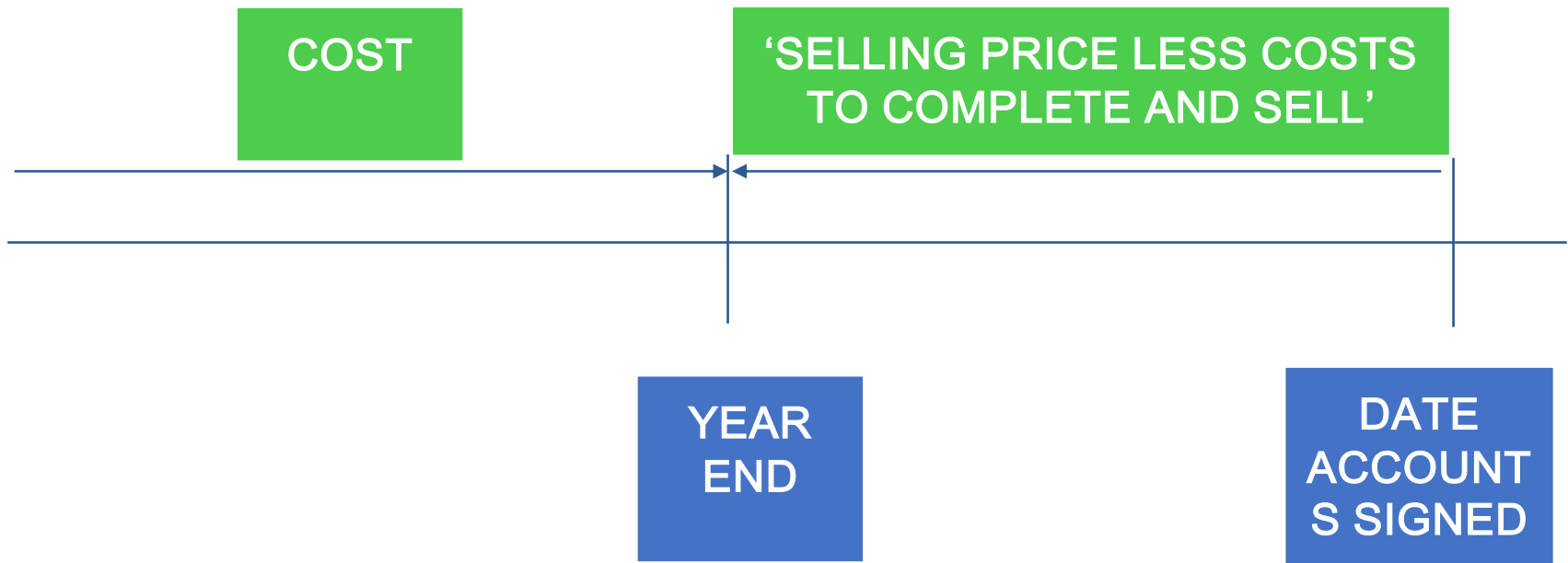
## **COST**

**All costs incurred in the  
normal course of business  
to bring stock to its year  
end location and condition**

## **NRV**

**Selling price less costs to  
complete and sell (e.g.  
market and distribute the  
product or service)**

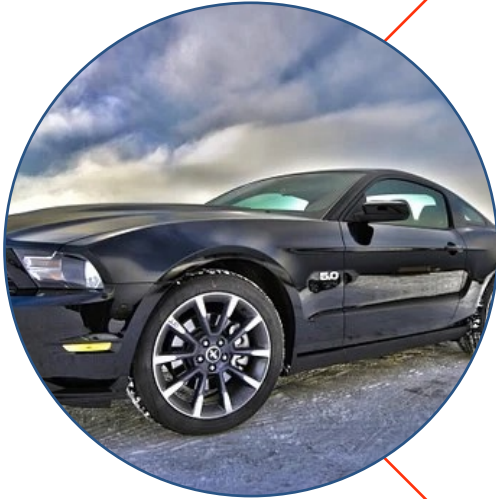
# Lower of cost and net realisable value



# Section 3: Loans and leases



# Question 8



**Our company has signed a three-year lease agreement with a car dealership. The agreement provides for a balloon repayment to be made at the end of three years to purchase the vehicle outright. The payment will reflect the market value of the vehicle at that point in time.**

**Should the asset be capitalised?**

# Finance or operating lease?

- ✓ Transfers ownership
- ✓ Bargain purchase option
- ✓ Lease term for major part of economic life of asset
- ✓ Present value of minimum lease payments substantially all fair value of leased asset
- ✓ Specialised assets
  
- ✓ Losses on cancellation borne by lessee
- ✓ Gains or losses in residual value fall to lessee
- ✓ Secondary period at rent substantially less than market rent

Could individually indicate a finance lease

Other factors to consider

FRS 102 para 20.3a

Determining whether an arrangement is or contains a lease shall be based on the substance of the lease ...and whether ... fulfilment of the arrangement is dependent on a specific asset(s) ...and the arrangement conveys a right to use the asset



# Question 9

**Accounting rules stipulate different accounting rules for basic and non-basic loans.**

**What's the difference?**

# Financial instruments

Financial instruments

```
graph LR; A[Financial instruments] --- B[Basic (Section 11 FRS 102)]; A --- C[Other (Section 12 FRS 102) (Incl. derivatives)];
```

Basic (Section 11  
FRS 102)

Other (Section 12  
FRS 102)  
(Incl. derivatives)

Option to use recognition and measurement principles of IAS 39/IFRS 9  
can be used instead

# Basic loans (para 11.9 FRS 102)

- Returns to the holder are:
  - A fixed amount
  - Positive fixed rate or positive variable rate
  - Combination of positive or negative fixed rate and positive variable rate
- Contract may provide for repayments to be linked to a single observable index of general price inflation ... provided not leveraged
- Contract may provide for determinable variation of return to the holder provided ... not contingent on future events other than:
  - Change of contractual variable rate
  - Protect holder against credit deterioration of issuer
  - Changes in levies applied by central bank or arising from changes in relevant tax or law

# Basic or non-basic?

Dagenham Limited borrows money for a property development. The loan will be repaid when individual properties are sold based on sales proceeds.

Redbridge Limited, a housing association, has signed a revolving credit facility with its bank. Interest savings are available based on whether the company achieves specific ESG targets

# Question 10

**A parent lends its subsidiary a large sum on an interest-free basis. This is repayable when the subsidiary sells a certain investment property.**

**Given that there is no date for when the asset will be sold, how does the subsidiary work out whether to provide for the cost of repayment and, if it should, how much?**

# Answer 10



Loan?

Capital  
contribution?

# Section 4: Provisions



# Question 11

A company enters into a 10-year lease on a property. The lease contains general dilapidation provisions that the property should be made good.

When should any provision be made?



# FRS 102 Section 21

## Provisions for liabilities

A provision is a liability of uncertain timing or amount

Present obligation from past events

Legal obligation

- Constructive obligation:
- Past practice, policies
  - Creates a valid expectation

Probable outflow of resources and a reliable estimate can be made

# Question 12

**A housing association has discovered that buildings are non-compliant with building regulations. Rectification work will be undertaken to comply.**

**Should the costs be provided for – or indeed capitalised?**

# Building regulations

## Consideration

s

- FRS 102 provisioning criteria are tough!
- Do costs meet definition of an asset?
- Is the spend essential (para 11.17 FRS 102)?
- Separate component?

[accounting for building safety costs arising from grenfell - key considerations 300518.pdf \(housing.org.uk\)](#)

# Section 5: Income recognition conundrums



# Question 13

Jennings Limited is a property developer. It sells houses off plan. It has received some non-refundable deposits pre year end in respect of sales that will complete post year end.

Should income be recorded over time or at a point in time?

# FRS 102 Section 23

## Application guidance

‘An entity that undertakes the construction of real estate ...and enters into an agreement with buyers before construction is complete shall account for the agreement using the percentage completion method only if:

- a) the buyer is able to specify the major structural elements of design ...before construction begins and/or specify major structural changes once construction begins (whether it exercises that option or not); or
- b) the buyer acquires and supplies construction materials ...

FRS 102 paragraph 23A.14

# Question 14

**A major fire at an entity's premises two months before the year end resulted in it making an insurance claim. The insurance company paid out 5 months later.**

**Should the income be accrued in the year end accounts? If it were to be accrued could the income be netted off against the cost of repairs?**

# Answer 14

Crystallisation of gain must be virtually certain

Pre year end event

Virtually certain at year end – or when accounts signed?

OK to net off in P&L but not balance sheet



# Question 15

**You act for a non-league football club. The club is struggling financially and has received a £100K grant from the Football Association which it intends to use over the next three years.**

**When should the grant be recognised in the P&L account? Can deferral be justified?**

# Grants

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in income in the period in which it becomes receivable.

**FRS 102 para 24.5E**



# Section 6: Other presentational issues



# Question 16

**FRS 102 requires disclosure of key judgements and sources of estimation uncertainty.**

**What's the difference?**

# Judgements/Sources of estimation uncertainty

## Judgements

An entity shall disclose...judgements...that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

## Estimates

An entity shall disclose...information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

...the notes shall include details of:

- a) their nature; and
- b) their carrying amount as at the end of the reporting period

# Common issues raised



Mixing them up!

Carrying amounts not clear

Key assumptions subject to estimation uncertainty not quantified

Sensitivities

Risk of material adjustment in following year for estimates?

# Question 17

**We often hear about errors in statements of cash flows.**

**What are the pitfalls?**

# Statements of cash flow

Poor labelling

Non-cash items in the statement of cashflow

Erroneous treatment of FX movements

Inconsistent classification

Statements of cash flow are only required for medium-sized and large entities



# Question 18

**Is it ok to recognise deferred tax assets in respect of carried forward tax losses.**

**How bullish can we be?**

# Evidence

## Appendix A: Examples of positive and negative evidence relevant to assessing the probability of future taxable profits<sup>27</sup>

Positive evidence	Negative evidence
Losses occurred due to identifiable one-time/non-recurring event	A recent history of operating losses for tax purposes
A strong earnings history exclusive of a non-recurring loss	Start-up business
New business opportunities, e.g. new patents	History of significant variances of actual outcomes against business plans
Restructuring or disposal which clearly eliminates the loss sources	Losses of major customers and/or significant contracts
Convincing tax planning strategies	Uncertainty regarding going concern
Firm sales backlog or new contracts	History of restructuring without returning to profitability, or emerging from a bankruptcy
Business acquisitions generating sustainable profit margins in the relevant taxable entity sufficient to enable the utilisation of tax losses	Losses expected in early future years
	History of unused tax losses and/or credits expiring
	The losses relate to core activities and thus may recur

[https://www.frc.org.uk/getattachment/d645c79f-c4c9-4370-86b7-58dfe6780bd1/FRC-Thematic-Review-Deferred-Tax-Assets\\_-September-2022.pdf](https://www.frc.org.uk/getattachment/d645c79f-c4c9-4370-86b7-58dfe6780bd1/FRC-Thematic-Review-Deferred-Tax-Assets_-September-2022.pdf)

# Section 7: Direction of travel



# Question 19

I've heard that there are changes afoot regarding small company filing.

Is this true??

# Economic Crime Bill

## Micro- entity accounts

- Must file full accounts
- Can opt to omit Directors' Report from filing
- Must file audit report (if audited!)

## Small company accounts


- Must file full accounts (inc. Directors' Report)
- Must file audit report (if audited)
- Abridged accounts prohibited

# Question 20

**Is it true that imminent changes to UK GAAP will bring it more in line with IFRS???**

# UK GAAP periodic review

2020      2021      2022      2023      2024      2025      2026

FRED 82 

 Issued Dec 2022  
Comments by 30 April 2023  
Final standard Autumn 2023?

**'Periodic review'**  
*1 January 2025 (expected)*

# Recent IFRSs changes

## IFRS 9

### Financial instruments

New 'expected credit loss model' can complicate bad debts and stock provisions

## IFRS 15

### Revenue recognition

Aligns (largely) with US GAAP – can be tricky to implement for complex contracts

## IFRS 16

### Lease contracts

Puts most leases on balance sheet as ROU asset and (initially) matching liability



# The plan ...

IFRS 9

FRS 102 

FRS 105 

IFRS 15

FRS 102 

FRS 105 

IFRS 16

FRS 102 

FRS 105 

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# Multiple Choice Questions to follow

- At the end of this section, you will need to answer the MCQs in order to get to your Certificate of Completion.
- If your course does not appear to be completed, **you may need to re-address** some of your answers



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