

# UK GAAP and IFRS Standards: Similarities and Differences

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**Abstract**—This paper aimed to help researchers and international companies to the differences and similarities between IFRS (International financial reporting standards) and UK GAAP or UK accounting principles, and to the accounting changes between standard setting of the International Accounting Standards Board and the Accounting Standards Board in United Kingdom. We will use in this study statistical methods to calculate similarities and difference frequencies between the UK standards and IFRS standards, according to the PricewaterhouseCoopers report in 2005. We will use the one simple test to confirm or refuse our hypothesis. In conclusion, we found that the gap between UK GAAP and IFRS is small.

**Keywords**—Accounting, UK GAAP, IFRS, similarities, differences.

## I. INTRODUCTION

FINANCIAL accounting and reporting is not an end in itself, but is intended to provide information that is useful to present to potential investors, creditors, other resource providers, and other users outside an entity in making rational investment, credit, and similar decisions about it [1].

According to the institute of chartered accountants in England and Wales [2], the objective of financial statements is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions [3].

Generally Accepted Accounting Practice in United Kingdom, or UK GAAP, is the accounting regulations establishing how company accounts must be prepared in the United Kingdom.

International Financial Reporting Standards "IFRS" are a set of accounting standards developed by International Accounting Standards Board IASB in 2002 to replace IAS standards prepared by International accounting standards commission in 1973, it aimed to provide investors and other users of financial statements the good ability to compare financial statements of international companies. By contrast, the purpose of this paper is to bring together several components in order to construct an answer to the following question: "What is the degree of convergence between UK GAAP and IFRS standards?"

## II. DATA AND METHODOLOGY

According to the PricewaterhouseCoopers report in June 2005 about differences between IFRS & UK GAAP, we can

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choose three colors that aim to present similarities, and differences between IFRS standards and UK standards:

TABLE I  
CONVERGENCE BETWEEN UK GAAP & IFRS [4]

IFRS	UK GAAP	Subject	Convergence
IAS 1	FRS 18, FRS 3	Presentation of financial statements	Green
IAS 2	SSAP 9	Inventories	Yellow
IAS 7	FRS 1	Cash flow statements	Red
IAS 8	FRS 3, FRS 18	Accounting policies	Green
IAS 10	SSAP 17 [FRS 21]	Events after the balance sheet date	Yellow
IAS 11	SSAP 9	Construction contracts	Red
IAS 12	FRS 16, FRS 19	Income taxes	Red
IAS 14	SSAP 25	Segment reporting	Red
IAS 16	FRS 15	Property, plant and equipment	Red
IAS 17	SSAP 21	Leases	Green
IAS 18	FRS 5	App G Revenue	Green
IAS 19	FRS 17	Employee benefits	Red
IAS 20	SSAP 4	Government grants	Yellow
IAS 21	SSAP 20 [FRS 23]	Foreign currency translation	Green
IAS 23	FRS 15	Borrowing costs	Green
IAS 24	FRS 8	Related party disclosures	Green
IAS 27	FRS 2	Consolidated financial statements	Green
IAS 28	FRS 9	Associates	Green
IAS 29	FRS 24	Hyperinflationary economies	Red
IAS 31	FRS 9	Joint ventures	Red
IAS 32	FRS 4, FRS 13 [FRS 25]	Financial instruments	Red
IAS 33	FRS 14 [FRS 22]	Earnings per share	Green
IAS 34	-----	Statement Interim financial reporting	Yellow
IAS 36	FRS 11	Impairment of assets	Green
IAS 37	FRS 12	Provisions, contingent liabilities and contingent assets	Yellow
IAS 38	FRS 10, SSAP 13	Intangible assets	Red
IAS 39	FRS 26	Financial instruments	Red
IAS 40	SSAP 19	Investment property	Red
IAS 41	-----	Agriculture	Red
IFRS 2	FRS 20	Share-based payment	Red
IFRS 3	FRS 6, FRS 7, FRS 10	Business combinations	Red
IFRS 4	FRS 27	Insurance contracts	Red
IFRS 5	FRS 3	Discontinued operations	Red

- Similar, but minor differences
- Some differences (Non-significant differences)
- Significant differences [4]

So, we can summarize frequencies of our convergence between IFRS and UK GAAP in Table II.

TABLE II  
CONVERGENCE RATIO

	Similarities	Non-significant Differences	Significant Differences	Total
Frequencies	11	6	16	33
Ratio	33,33%	18,18%	48,48%	100%

To find the degree of convergence between UK GAAP & IFRS standards, we will use Student Test-One simple test-with help of SPSS statistic program, so we can formulate our hypotheses as:

- H0: There are no significant statistic indicators of convergence between UK GAAP and IFRS standards.
- H1: There are significant statistic indicators of convergence between UK GAAP and IFRS standards.

### III. ANALYSIS

According to Table III, we note that the significant statistic indicator Sig= 0,062, is greater than 0,05; so we note that the field of confidence of our test = [-1,4207, 23,4207], it is very

TABLE IV  
DIFFERENCES BETWEEN UK GAAP & IFRS [6]

Topic	UK GAAP treatment	IAS/IFRS treatment
Performance reporting	FRS 3 requires a Statement of total recognized gains and losses (FRS3)	Tangible IAS 1 requires a Statement of changes in equity but would allow STRGL to be presented either as a stand-alone, or as a subset within the statement of all changes in equity (IAS1.96).
	FRS 3 includes a stringent definition of 'discontinued operations' (FRS3).	IAS 35 refers to 'discontinuing operations' but there are proposals to amend this (IFRS 5 refers to 'discontinued operations')
	FRS 3 requires fundamental errors to be accounted for by way of restatement (as though the error had never occurred) and prior year adjustment. The effects of material errors should be reflected in the profit and loss account without restatement (FRS3).	IAS 8 proposes to prohibit the inclusion of material errors in the profit and loss account. (IAS8)
Exceptional items	FRS 3 includes definitions for exceptional items (FRS3)	IAS8 does not refer to the term 'exceptional item'.
	FRS 3 requires all exceptional items to be charged or credited in arriving at operating profit (FRS3.19) with three specific exceptions (FRS3).	IAS 1 simply requires separate disclosure (either on the face of the income statement or in the notes) 'when items of income and expense are material' and gives examples of circumstances that would give rise to separate disclosure (IAS1)
Extraordinary items	In theory permitted by FRS 3 (FRS3, FRS3) but in practice extinct.	IAS 1 prohibits use of extraordinary items.
	Equity and preference dividends (paid or proposed) are to be included in the profit and loss account.	Equity dividends paid must either be dealt with in the income statement or in the statement of changes in equity (IAS1.95).
Dividends paid and proposed	SSAP 17 requires proposed dividends to be treated as adjusting post-balance sheet events (SSAP17), although CA 85 and SSAP 17 are due to be amended in the near future (N.B. FRS 21 issued but not in use).	Preference dividends paid (relating to preference shares classified as liabilities in accordance with IAS32) shall be recognized as an expense in the income statement (IAS32).
	There is no comprehensive UK standard but ASB has issued an Application Note to FRS 5 providing detailed guidance on five specific areas.	Equity dividends declared after the balance sheet date shall not be recognized as a liability at the balance sheet date (IAS10) but must be disclosed by way of note (IAS1).
Revenue recognition	FRS 1 requires cash flows to be grouped under nine sub-headings (FRS1).	IAS 18, Revenue, includes detailed requirements and guidance. IASB is currently developing a new standard to replace IAS 18, but any changes are unlikely to be mandatory until after 2005.
	The statement should reconcile to 'cash' (FRS1).	IAS 7 requires cash flows to be grouped under three sub-headings (IAS7.10).
Cash flow statements	FRS 1 specifies a number of exemptions from its scope (FRS1).	The statement should reconcile to 'cash and cash equivalents' (IAS7).
	FRS 1 requires 'net debt' disclosures (FRS1).	IAS 7 contains no scope exemptions.
	There is no comprehensive standard, although some aspects are covered by FRS 4 and SSAP 20.	IAS 7 specifies different disclosure items (IAS7.45).
Financial instruments ' recognition and measurement	Under UK GAAP, derivatives are usually stated initially at historical cost (often £ nil).	Covered comprehensively by IAS 39.
	Under UK GAAP, current asset investments are stated at lower of	IAS 39 requires fair value accounting with all gains and losses recognized in the profit and loss account (unless cash flow hedge accounting is applicable).
		Make better financial decisions around Brexit - join our webinar on Thursday 4th May at 11am All derivatives must be recognized on the balance sheet (as debtors or creditors).

large, therefore we will refuse the alternative hypothesis and accept the nihilistic hypothesis that

- There are no significant statistic indicators of convergence between UK GAAP and IFRS standards.

TABLE III  
ONE-SAMPLE TEST

t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
Convergence	3,811	2	0,062	11,0000	-1,4207 23,4207

SPSS Statistical Outputs taken from [5]

### IV. EXPLAINING STATISTICAL RESULTS

We can explain our statistical results by several differences between UK GAAP and IFRS standards, among them presented in Table IV:

<i>Topic</i>	<i>UK GAAP treatment</i>	<i>IAS/IFRS treatment</i>
	cost.	asset classification (IAS39.46).
<b>Financial instruments ' presentation and disclosure</b>	Some aspects of this are covered by FRS 4 (all companies) and FRS 13 (listed companies only). All preference shares are to be classified as share capital Convertible loan stock is to be presented as liabilities until conversion to equity actually takes place (FRS4). [Note proposals to amend CA 85 in line with requirements of EU Directives].	Covered comprehensively by IAS 32 (currently under review). Preferences shares to be classified as either share capital or liabilities, according to their substance (IAS32, IAS 32) On initial recognition, carrying amount to be allocated between liability element and equity element, and presented separately (IAS32).
<b>Deferred tax</b>	In most cases, deferred tax may not be provided on revaluation surpluses, and gains on disposal where rollover relief is likely to be claimed (FRS19). Deferred tax balance may be discounted (FRS19). Tax reconciliation required is to 'current' tax (FRS19)	Deferred tax must be provided on these 'temporary differences' (IAS12). Discounting is not permitted (IAS12). Tax reconciliation is to total tax expense [current tax plus deferred tax] (IAS12). IAS 19 requires all such gains and losses to be taken to profit and loss account, either immediately or spread over a period (IAS19). IAS 19 also has a complex 10% 'corridor' option) (IAS19). [IASB has 'tentatively' agreed to require the immediate recognition of all actuarial gains and losses]. IAS 19 makes no reference to deferred tax. IAS 19 deals with a broader range of issues, including employee profit-sharing and termination benefits.
<b>Retirement benefits</b>	Where FRS 17 has been fully adopted, all actuarial gains and losses must be taken direct to reserves [presented in STRGL]. Where FRS 17 has been fully adopted, deferred tax should be deducted from the respective retirement benefit asset or liability.	IAS 19 requires all such gains and losses to be taken to profit and loss account, either immediately or spread over a period (IAS19). IAS 19 also has a complex 10% 'corridor' option) (IAS19). [IASB has 'tentatively' agreed to require the immediate recognition of all actuarial gains and losses]. IAS 19 makes no reference to deferred tax. IAS 19 deals with a broader range of issues, including employee profit-sharing and termination benefits.
<b>Goodwill (including purchased goodwill arising in the accounts of an individual company) Research and development costs</b>	FRS 10 gives choice for positive goodwill between systematic amortization and carrying at unchanged amount subject to annual impairment review. Negative goodwill must be recognised in the profit and loss account over a specified period (FRS10). Where 'development cost criteria' satisfied, policy option choice between capitalization and immediate write-off (SSAP13).	IFRS 3 will prohibit systematic amortization. Negative goodwill should be credited to P/L as it arises. Where IAS 38 criteria satisfied, capitalization is mandatory.
<b>Investment properties</b>	SSAP 19 requires investment properties to be revealed in the accounts each year at open market value (SSAP19) with changes in market value taken to investment revaluation reserve, subject to limited exceptions. SSAP 19 specifies particular requirements for investment properties held under operating leases. The cost of such leases should be capitalized and reported as a single asset. The asset should be premeasured at each subsequent balance sheet date at open market value. Such properties should be depreciated over the unexpired lease term where this period is twenty years or less (SSAP19).	IAS 40 allows a choice between the 'fair value model' and the 'cost model' (IAS40). The fair value model requires property to be measured at its fair value reflecting market conditions at the balance sheet date (IAS40) with changes in value recognized in the profit or loss for the period The cost model is set out in IAS 16.30 and after recognition would require investment properties to be stated at cost less any accumulated depreciation and any impairment losses. IAS (revised) permits operating leases to qualify as investment property provided that: - the property must otherwise meet the definition of an investment property, and - the lessee must account for the lease as if it were a finance lease and measure the resulting asset using the fair value model (IAS40).
<b>Property, plant and equipment ' estimates of residual value</b>	Residual value is defined as the net realizable value of an asset at the end of its useful economic life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes (FRS15).	The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (IAS16).
<b>Revaluation of property, plant and equipment</b>	FRS 15 requires the following bases: Non-specialized properties ' existing use value; Specialized properties ' depreciated replacement cost; Properties surplus to requirement ' open market value.	IAS 16 requires revalued assets to be carried at fair value at date of revaluation, less accumulated depreciation. IAS16 states that the fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values (less guidance compared with FRS 15.
<b>determination of market value</b>	FRS 15, Appendix 1, contains RICS definitions. FRS 15 sets out strict rules regarding frequency of revaluations (FRS15)	ASB has commented on the implications of the above in the preface to FRED 29. IAS 16 requirements are less rigorous (IAS16).
<b>Related party disclosures</b>	FRS 8 allows exemption of certain intra-group transactions where consolidated accounts are prepared and publicly available (FRS8) The definition of 'materiality' is very broad and 'is to be judged, not only in terms of their significance to the reporting entity, but also in relation to the other related party when that party is"(FRS8)	There is no equivalent exemption (IAS24) IAS 24 makes no specific reference to materiality other the general point that IAS 24 should be read in the context of its objective and 'the Framework for the Preparation and Presentation of Financial Statements.

## V. CONCLUSION

Through this paper, we explained that there are a lot of differences between UK GAAP and IFRS accounting standards, there are some 'significant differences which are identified above & there are some other differences. However, the gap between UK GAAP and IFRS is quite small.

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