

BUSINESSTIMES

News for Capital Markets

Welcome to the first edition of **Business Times**, a new regular newsletter from PKF Littlejohn's Capital Markets team, providing a round-up of the main developments in accounting and general market matters.

What investors want from financial statements

Now is the time of year when most companies start thinking about the annual audit process and their financial statements. Our conversations with investors reveal that for the coming period they expect:

- The relationship between IFRS measures and any alternative performance measures to be clearly explained
- Business model reporting to provide clarity of explanations of how the company makes money and what differentiates it from its peers
- A clear link between the business model and the revenue recognition policies to be disclosed
- Dividend disclosures to detail how dividend policies operate in practice and how these policies may be affected by risks and capital management decisions facing the company

Getting to grips with the new revenue recognition rules

IFRS 15 (Revenue from Contracts with Customers) will apply to annual reporting periods beginning on or after 1 January 2018, meaning that 2017 will be the comparative period. The new accounting standard requires companies adopting IFRS to follow a five-step approach:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies the performance obligation

This approach should not pose too much of a challenge to businesses offering a single product or service with a straightforward and transparent pricing structure. However, many businesses that provide bundled products and services (such as those, for example, incorporating deferred payment options, warranties and incentive schemes) will need to unbundle the underlying product and service components, and may find certain elements of a contract being dealt with by different accounting standards.

Application of this guidance will depend on the specific circumstances present in a contract with a customer and will require the exercise of judgment. Companies need to start thinking about the impact this will have on their financial statements and, if there are any changes, how to effectively communicate any potential changes to investors in a timely manner.

Hot topics – what you need to know

Here's our round-up of what's been making the news in the market over the past few weeks.

Cyber security – IT security is becoming an area of increasing focus not only for businesses but also for regulators, with the ICAEW warning that authorities may step in if businesses fail to take cyber security seriously in their business planning. Now is the time to ensure that IT security is being carefully considered at board level and risk registers are being updated accordingly.

[Read more.](#)

Corporate tax 'burden' – The Finance Bill 2017 is introducing a new legal requirement for companies to report on their complex financial structures and notify HMRC. [Read more.](#)

ICAEW Brexit wishlist – The ICAEW has set out its wishes from the UK Government in relation to Brexit. It calls for a coherent regulatory framework that focuses on regulatory outcomes, not processes, to protect and enhance market success. [Read more.](#)

AIM needs a makeover – As the number of companies on AIM continues to shrink, there is concern that the market may find it increasingly difficult to attract international companies looking to raise capital. [Read more.](#)

FRC thematic reviews – The FRC will be undertaking thematic reviews of certain aspects of corporate reports and audits where it believes there is scope for improvement. [Read more.](#)

We hope you've found this issue useful. If anyone within your business would like to receive future issues, please send their details to Ruby Crowley (rcrowley@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Capital Markets team.

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