FRS 102 - Business combinations and changes to recognition criteria for intangible assets

Business combination accounting is required where a company acquires control of another business. Recent changes to FRS 102 mean that fewer intangible assets will need to be recognised by UK GAAP-reporting entities, which could affect amortisation and therefore reporting of net profit.

March 2018

In December 2017, the Financial Reporting Council published 'Amendments to FRS 102 - Triennial review 2017', with the aim of simplifying the requirements of UK GAAP.

The amendments are effective for accounting periods beginning on or after 1 January 2019, with **early application permitted** (as of now) provided all amendments are applied at the same time.

A key amendment means that the number of intangible assets recognised at fair value as part of business combination accounting is likely to reduce – see opposite. Previously, an intangible asset meeting the recognition criteria* was required to be shown at fair value where it arose from (i) contractual or other legal rights; **or** (ii) was separable.

New requirements are that such assets must now arise from contractual or other legal rights **and** be separable (although entities may choose to follow the old requirements). The new requirements were developed in response to a view from users of accounts that assets should not be recognised where they are unlikely to be separable, to have reliably determined useful lives or to be a source of future economic benefits that are distinguishable from the business as a whole.

Likely to meet new criteria

- Trademarks (and possibly unregistered trade names closely associated with the target company's registered name)
- Patented technology
- Legally protected trade secrets
- Copyrights
- Licences
- Internet domain names

Unlikely to meet new criteria

- Customer relationships
- Customer lists
- Unprotected trade secrets

* An intangible asset may be recognised if, and only if, it is probable that expected future economic benefits attributable to the asset will flow to the entity, and it is possible to measure reliably the cost or value of the asset.

For additional information and support from our Valuations team, **please contact:**

Mike Thornton
Partner and Head of Valuations
T +44(20) 7728 2644
E michael.j.thornton@uk.gt.com

Jonathan Riley
Associate Director
T +44(121) 232 5240
E jonathan.k.riley@uk.gt.com