# Impact of Brexit on Financial reporting

# Content

- What is Brexit?
- Idea behind Brexit
- Impact on overall Economy of UK
- The Brexit impact on European countries
- What Indian companies can expect
- Impact of Brexit on financial reporting

## What you need to know

This uncertainty will likely impact all UK businesses and those that do business/invest in the UK.

There has been an immediate impact on the financial markets, both in the UK and across the world, with the pound significantly weakening against other currencies and share prices fluctuating as the market reacts to the decision

Entities will need to consider the potential effects of Brexit and related market volatility when preparing their upcoming interim (or annual) reports.


**Shashwat Tulsian**

*I am a Qualified Chartered Accountant, Lawyer and Company Secretary. As a result, I have a unique ability to manage multi-disciplinary projects and to navigate complex challenges. I have helped work on more than 5000 such projects for multinationals over the last few years.*

**Nisha Kulthia**

*I am a Qualified Chartered Accountant,Company Secretary.*
*I like to think strategically and i'm driven to help businesses solving there financial and taxation needs. I also like to add value to research on economy and industry Analysis and its impact on business.*

## What is Brexit?

Brexit is the term coined for Britain's referendum to exit the European union. On 23 June 2016, the people of the UK voted to leave the EU (Brexit). Momentum had been growing behind the EU exit campaign, which wanted to end central control by Brussels and give Britain the freedom to manage its own affairs.

## Idea behind Brexit

This vote has been put in place by the idea of **giving more powers to the people of Britain in decision making of their country, rather than being the implementer of the policies made in Brussels (headquarters of European Union).**

# Impact on overall UK Economy

It has been a difficult shot to take as the **advantages and drawbacks** weigh equally with the referendum.

- Britain has been more of a importer than exporter. With a big economy and low resources it is dependent on Europe, China and India for its imports. Europe being a free trade area has been providing free access to markets for Britain until now.
- The specifics of how the UK will exit the EU will be the subject of negotiations for at least the next two years.
- According to research consultancy, the main negative impact of Brexit will be felt between 2016 and 2018 because of the uncertainty around the future of trade relationships with the EU.
- Anticipation- Market and currency volatility in the short term, but the long-term implications will depend heavily on the specifics of how the UK unravels its participation in the EU.

# The Brexit impact to European countries

The Brexit impact is not only limited to Britain, but also European countries. London has always acted as **financial hub**, which gives access to capital markets of the world to Europe. But with Brexit, European Union will end up having a **limited access to capital markets**. In all likelihood, access to this market will form a key part of trade negotiations.

## The Indian impact of Brexit

“ Indian Companies can expect a deregulated and freer market in Britain”

- According to a report by UK Trade & Investment (a government department), India is the third largest source of foreign direct investment (FDI) into Britain after the US and France. Indian companies are estimated to have employed over 1,10,000 employees in the UK currently. The number of Indian companies in the UK has nearly doubled from 36 in 2014 to 62 firms in 2015, with a combined turnover of more than 26 billion GBP in 2015.
- Indian companies that participate in the UK or EU markets, either through the financial or stock markets, or by selling to, purchasing from, or having operations in those geographies, will likely experience some financial effects.
- On the event of Brexit, the pound rate might fall against the dollar and thus, the rupee. It may have an adverse impact on the operations of Indian companies in the export industry.
- Britain would not want to lose out on capital coming in from India. Thus, one can expect Britain to try extra hard to woo Indian companies to invest there by providing much bigger incentives in terms of tax breaks, lesser regulation and other financial incentives.

# Impact on financial statements of UK Companies

Directors and auditors to consider whether additional disclosures are necessary to ensure that **True and Fair view** requirement is met:

- Clear disclosure of a company's business model as part of its strategic report, including a description of the main markets in which the company operates and its value chain.
- Directors must consider the nature and extent of risks and uncertainties arising from the result of the referendum and the impact on the future performance and position of the business. It could lead to further consequences such as an effect on debt covenants.
- Disclosures of material uncertainties are needed particularly where there is a material risk of breach of covenants. It has impact on *Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks.*
- The volatility in the markets following the referendum result may have an impact on balance sheet values at 30 June 2016 or at subsequent reporting dates. For example, financial instruments measured at fair value and discount rates used in measuring pension and other liabilities may be affected by changes in foreign exchange rates, interest rates or market prices. Cash flows included in future forecasts may need to be re-evaluated.
- There is a general requirement that the interim management report of listed companies must include disclosure of important events that have occurred during the first six months of the financial year, and an indication of their impact on the interim financial statements

# References


https://www.accountancyage.com/2016/07/14/six-ways-brexit-will-impact-companies-financial-statements/

http://www.dailymail.co.uk/news/article-3698983/Britain-GIVES-chance-charge-EU-one-time-focus-Brexit-talks-Theresa-visits-Berlin-start-negotiations-Angela-Merkel.html

https://next.ft.com/stream/brandId/OGQ0NzZkYTEtZTRjZS00MTNlLTk1MDYtNzFmOWI1YTIxNGNj-QnJhbmRz

http://www.telegraph.co.uk/eu-referendum/

http://www.theweek.co.uk/73955/can-post-brexit-britain-retain-access-to-the-single-market

http://www.financialexpress.com/economy/brexit-impact-on-india-nirmala-sitharaman-explains-key-features/319740/

http://economictimes.indiatimes.com/wealth/invest/how-brexit-will-impact-the-indian-market/articleshow/52912741.cms

http://www.ndtv.com/opinion/your-guide-to-brexit-and-5-ways-it-will-impact-india-1421554

http://capitalmind.in/2016/06/brexit-need-know-impact-india/

## About RTC

R.Tulsian and Co. LLP is a full services multinational chartered accountancy and legal services firm having its head quarters in India. We have a multinational presence with clients in USA, Europe and Australia. We also have a strong PAN India presence in important strategic locations including Kolkata, New Delhi, Bangalore, Mumbai and Gujarat, North East India, among other places.

Our practice is more than 60 years old and our services include Tax advisory and compliance including Direct and Indirect taxation,International transactions including Cross Border Transactions and Structuring, Accounting, Bookkeeping, Payroll,Transaction Advisory services, Auditing, Corporate Laws including Companies Act and other allied laws, consulting with FEMA laws and RBI laws, Due Diligence, Risk Management and Mitigation, Outsourcing services and Business development.

For more information about RTC service offerings, visit www.rtulsian.com

### Our Offices

**Kolkata Office:**

7/1C, Jatindra Mohan Avenue,
1st Floor, Kolkata – 700006
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com
tapas@rtulsian.com

**Delhi Office:**

C-10 Varun Apartments, Rohini, Sector 9
New Delhi-110085
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com
tapas@rtulsian.com

**Mumbai Office:**

302 Tarachand Apartment, Gomes Street, Station Road, Bhayander (West)- 400101
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com