

UK ACCOUNTING UPDATE 2016 – INCLUDING FRS 102 AND FRS 105

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1. MOVING THE GOALPOSTS!

1.1. INTRODUCTION

From 1 January 2015 (if not before) all UK companies must follow:

- EU adopted IFRS, or
- FRS 101 – if eligible, or
- FRS 102, or
- FRS 102 with reduced disclosures – if eligible, or
- FRSSE (effective January 2015) – if eligible

It is likely that listed companies and their subsidiaries will either use EU adopted IFRS (as used in their consolidated accounts) or FRS 101.

Small private companies will most likely continue to use FRSSE, or else switch from old UK GAAP to FRSSE, although some may opt to use FRS 102. If FRSME is finalised in time, some micro companies may opt for early adoption so as to avoid switching from one version of FRSSE to another.

UK subsidiaries of overseas companies will most likely use FRS 101 or FRS 102 with reduced disclosures.

Most other companies will most likely use FRS 102 or FRS 102 with reduced disclosures (if eligible)

1.2. THE EU ACCOUNTING DIRECTIVE

In June 2013, the EU adopted a new Accounting Directive – “EU Directive 2013/34/EU” on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. Chapters 1 to 9 of the Accounting Directive provide the legal foundations upon which the UK’s financial reporting framework is built. This new directive consolidates, modernises, and updates the previous directives governing this area of regulation. The UK is required to bring the Accounting Directive into UK law no later than 20 July 2015.

Size categories

The Accounting Directive sets mandatory thresholds for micro, small, medium and large companies relative to their average number of employees, balance sheet total and, turnover at the balance sheet date.

The Accounting Directive sets a mandatory minimum threshold for small companies. A small company comes under the relevant size if it does not exceed the limits of at least two of the three criteria. However, for small companies only, the Directive permits Member States to increase the balance sheet total and net turnover values by up to 50%. This gives Member States the opportunity to allow more companies to access to the less burdensome small company regime if they wish. The table below shows the minimum and maximum thresholds permitted for the small company regime:

		Balance sheet, £	Net turnover, £	Average no. of employees
<i>For individual company accounts:</i>				
Small company		≤ 3,500,000	≤ 7,000,000	≤ 50
Using <i>minimum</i> mandatory threshold values				
Small company		≤ 5,100,000	≤ 10,200,000	≤ 50
Using <i>maximum</i> threshold values permitted				
<i>For group/consolidated accounts:</i>				
Small group ²¹	Net	≤ 3,500,000	≤ 7,000,000	≤ 50
Using <i>minimum</i> mandatory threshold values	Gross	≤ 4,200,000	≤ 8,400,000	
Small group ²²	Net	≤ 5,100,000	≤ 10,200,000	≤ 50
Using <i>maximum</i> threshold values permitted	Gross	≤ 6,100,000	≤ 12,200,000	

1.3. CONSULTATION

The Government consulted on its approach to the implementation of the new Accounting Directive from 29 August 2014 to 24 October 2014. The consultation document noted those areas where a mandatory change was imposed and set out the Government's proposals where a new option was available or where it was intended that an established position should be changed. On 27 January 2015, the Government published its response to the consultation on the UK implementation of the EU accounting directive and clarified that it intended to introduce the necessary legislation before the General Election.

1.4. NEW LEGISLATION

The Government has introduced new legislation in the form of SI 2015/980 "The Companies and Groups (Accounts and Reports) Regulations 2015".

Companies will be required to apply the new financial reporting framework for financial years commencing on or after 1 January 2016. However, the regulations permit that companies may voluntarily adopt the framework earlier if this would enable them to access a less burdensome reporting regime.

However it should be noted that it is not possible to adopt the new audit exemption thresholds for accounting periods commencing before 1 January 2016.

1.5. THE CHANGES

In summary the Government have:

- Adopted the maximum thresholds available to determine the size of small companies. This will enable 11,000 medium-sized companies to be re-categorised and access the less burdensome small companies regime. (Mandatory increases in the thresholds for medium-sized and large companies will also be applied.)
- Reduced the number of mandatory notes required of small companies to 13 notes, where these are appropriate. (It is estimated that currently most small companies must provide a minimum of 17 notes).
- Permitted small companies to prepare an abridged balance sheet and abridged profit and loss account if approved by all of the company's shareholders. This strikes a balance between enabling simplification and protecting minority shareholder interests.
- Given companies in the same group as a public company which is not a listed company access to the small or medium-sized companies regimes.
- Provided companies with the opportunity to use alternative layouts when preparing their profit and loss account and the balance sheet provided that the information given is at least equivalent to the information otherwise required by the standard formats. (This option is intended to reduce the burden of consolidation for those in a group using international accounting standards.)
- Required that, in exceptional circumstances, where the useful life of goodwill cannot be reliably estimated that it shall be written off over no more than 10 years.
- Required that information on subsidiaries included with the consolidated financial statements is only provided as a note to those statements;
- Removed the requirement for micro-entity companies to prepare a Directors Report;
- Permitted the use of the "equity method" in individual company financial statements.

2. REPAIRING THE BROKEN ACCOUNTING STANDARDS

2.1. INTRODUCTION

On 16 July 2015, the FRC issued a suite of changes that update and, in many cases simplify, UK and Ireland accounting standards. Key amongst the changes are new requirements for micro-entities and small entities, and the withdrawal of the *Financial Reporting Standard for Smaller Entities* (FRSSE).

The changes are largely in response to the implementation of the new EU Accounting Directive, and include:

- a new standard, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*;
- a new Section 1A *Small Entities* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- other changes necessary for continued compliance with company law.

Melanie McLaren, Executive Director of Codes and Standards said:

“These new accounting standards support the implementation of the micro-entities regime, further simplifying accounting requirements for up to 1.5 million of the UK’s smallest entities. They also respond to the new legal framework for disclosure in small company reporting, providing guidance for applying it and improving transparency relating to financial instruments, and they further improve the cost-effective reduced disclosure framework for listed groups by permitting IFRS-based presentation requirements in subsidiaries’ financial statements.”

Changes made also relate to the annual review of FRS 101 *Reduced Disclosure Framework* and address an implementation issue in relation to FRS 102.

The main changes are effective for accounting periods beginning on or after 1 January 2016, with early application permitted for accounting periods beginning on or after 1 January 2015.

2.2. BACKGROUND

The changes to accounting standards issued are:

- *Amendments to FRS 100 Application of Financial Reporting Requirements*;
- *Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments*;
- *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments*; and
- *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime*.

Also issued is an *Overview of the financial reporting framework* which describes the financial reporting framework applicable for accounting periods beginning on or after 1 January 2016. It includes key differences between the FRSSE and the new requirements set out in FRS 105 and Section 1A of FRS 102.

In September 2015 the FRC is expected to issue revised editions of FRS 100 *Application of Financial Reporting Requirements*, FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. These will reflect the changes issued on 16 July 2015 and any other changes made since the current editions were published.

2.3. FRC STATEMENT

As a consequence of the changes to company law arising from the implementation of the EU Accounting Directive, it has been necessary to make amendments to UK and Republic of Ireland (RoI) accounting standards to ensure continued consistency between the revised legal frameworks and the financial reporting framework. This has also given the FRC the opportunity to reconsider the most appropriate way that accounting standards can support the new micro-entities regime.

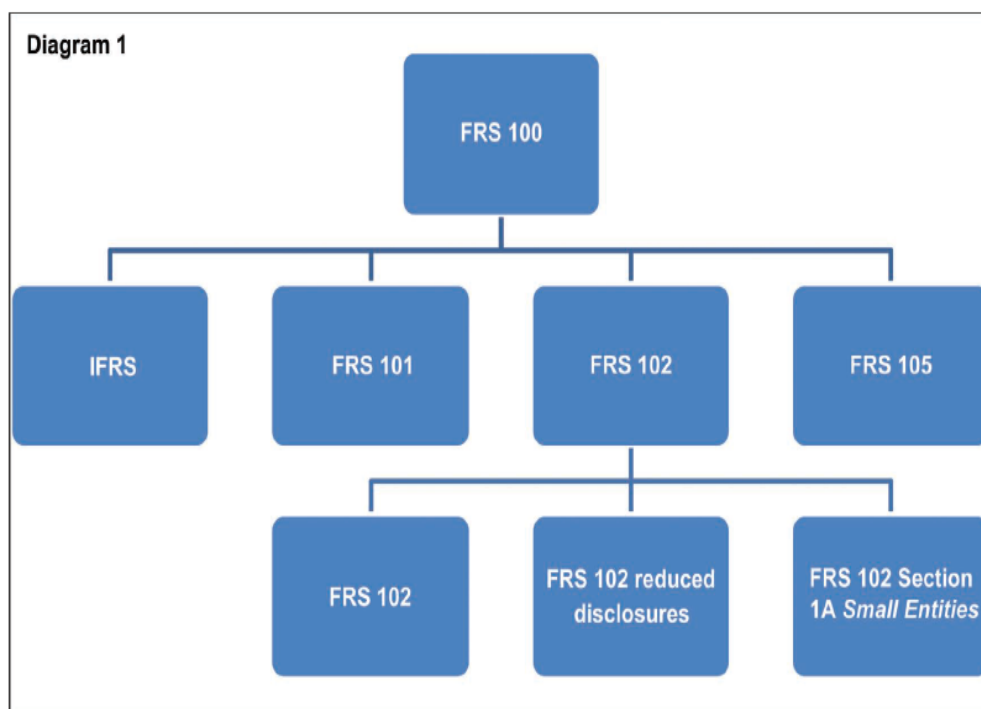
The changes to company law predominantly affect the small companies regime, however other more minor amendments affect other aspects of UK and Republic of Ireland accounting standards.

2.4. OVERVIEW OF THE FINANCIAL REPORTING FRAMEWORK

The FRC overview describes the financial reporting framework that will be applicable for accounting periods beginning on or after 1 January 2016 (early application is permitted subject to the provisions in each standard).

Company law recognises two financial reporting frameworks – IFRS and UK and Ireland GAAP (generally accepted accounting practice). Publicly listed companies are required to apply IFRS in the preparation of their group accounts but may choose between IFRS and UK and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a free choice between the two frameworks.

FRS 100 *Application of Financial Reporting Requirements* sets out the overall framework, which can be illustrated as follows:



UK and Ireland GAAP

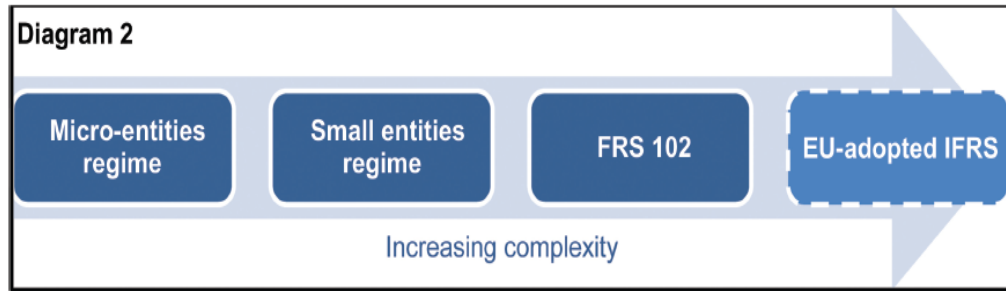
The UK and Ireland GAAP reporting framework is made up of five regimes, three of which are available within FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The other two are FRS 101 Reduced Disclosure Framework and FRS 105 The Financial Reporting Standard applicable to the Micro entities Regime.

Smaller entities have a choice between three core UK GAAP regimes subject to meeting relevant criteria:

- the micro-entities regime (FRS 105);
- the small entities regime (Section 1A Small Entities of FRS 102); and
- FRS 102.

Entities that are part of a group may apply either of the reduced disclosure regimes.

The financial reporting requirements of each standard get progressively more complex and comprehensive the further up the suite of standards you go. The increase in complexity correlates to the increasing size and complexity of the entities that are most likely to apply a given standard. In all cases, an entity may choose to opt up to a more comprehensive regime.



The selection of which regime to apply will depend on a number of factors including the following:

- Whether an entity is eligible to apply that particular regime. Eligibility criteria may include the type of financial statements (ie individual or group) being prepared, size thresholds and entity type.
- Where a choice of regime exists, entities should consider which of the regimes is the most appropriate to the individual circumstances of the entity. Factors to consider will differ from entity to entity and may relate to certain characteristics or restrictions of a particular regime, the resources available and the information needs of users of the accounts, amongst many others.

The following table outlines the key eligibility criteria for the micro-entities and small entities regimes. Entities should refer to the detailed eligibility criteria in the relevant legislation in order to determine if they are eligible or not.

Table 2: UK Eligibility criteria		
Regime	Micro-entities regime ¹	Small entities regime ²
Source of eligibility criteria	Sections 384A to 384B of the Companies Act 2006.	Sections 382 to 384 of the Companies Act 2006.
Eligible entities	Companies only (Note: Whilst the legislation and consequently FRS 105 uses the term micro-entities regime, it is only currently available in law to companies.)	- Companies - Limited liability partnerships³ - Any other type of entity that would have met the criteria of the small companies regime had it been a company incorporated under company law (for example charities)
Size thresholds	A company qualifies if it does not exceed two or more of the following criteria: - Turnover £632,000 - Balance sheet total £312,000 - No. of employees 10	A company ³ qualifies if it does not exceed two or more of the following criteria: - Turnover £10.2m - Balance sheet total £5.1m - No. of employees 50
Ineligible entities	- Any companies excluded from the small companies regime - Financial institutions including credit and insurance institutions - Charities - Small parent companies that choose to prepare group accounts - Companies that are not parent companies but their accounts are included in group accounts	- Public companies - Financial institutions including insurance companies and banking companies

FOOTNOTES:

NB: The Balance sheet total for a micro entity should be £316,000, not as stated in the FRCs table!

1 For Irish entities, if legislation is enacted, the equivalent thresholds are: Turnover €700,000, Balance sheet total €350,000 and Number of employees 10.

2 For Irish entities, qualification as a small company is set out in section 350 of The Companies Act 2014. The current equivalent size criteria are: Turnover not exceeding €8.8m, Balance Sheet total not exceeding €4.4m, and number of employees not exceeding 50. The equivalent thresholds after implementation of the EU Accounting Directive have not yet been set, however the limits in the Directive are: Turnover at or above €8m and not exceeding €12m; Balance sheet total at or above €4m and not exceeding €6m.

3 As set out in the The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (SI 2008/1911). The thresholds differ from those applicable to companies.

2.5. KEY DIFFERENCES BETWEEN FRS 105 AND THE FRSSSE

Table 4: Key differences between FRS 105 and the FRSSSE	
Key features of FRS 105:	
Presumed true and fair view	Financial statements prepared in accordance with the legal requirements of the micro-entities regime are presumed to give a true and fair view, therefore directors are not required to consider what additional information is required for the financial statements of the entity to give a true and fair view. This is in contrast to the FRSSSE where directors were legally obligated to ensure the financial statements provided a true and fair view.
Preparation of only two primary statements required	Micro-entities are only required to prepare a balance sheet and profit and loss account and not a statement of recognised gains and losses (STRGL) or a cash flow statement.
Significantly condensed formats of statements	The statutory formats for the balance sheet and profit and loss accounts are significantly condensed, for example “current assets” is not disaggregated into stocks, debtors, investments and cash.
Significantly reduced number of disclosures	Micro-entities are only legally required to provide two disclosures, and are not required to provide any more. However, micro-entities can voluntarily provide more disclosures. This is in contrast to the FRSSSE which mandates significantly more disclosures.
Simplified accounting treatment	FRS 105 has simplified the accounting treatment for some transactions. For example, micro-entities shall not account for deferred tax.
Fair value and revaluation accounting not permitted	Micro-entities are not permitted to fair value or revalue any assets or liabilities, therefore all assets and liabilities (such as land and buildings and investment properties) must be held at cost. This is in contrast to the FRSSSE which permitted or required certain assets to be revalued.
No accounting policy choices	All accounting policy options have been removed. In general, the mandatory treatments result in earlier recognition of income / expenses in the profit and loss account rather than deferring on the balance sheet.
More helpful guidance included	In many instances, the requirements of FRS 105 do not differ from those of the FRSSSE, but more guidance is provided in FRS 105 to help preparers apply and interpret the treatment required.
Not all company law requirements are reproduced	FRS 105 does not reproduce all the reporting requirements from company law applicable to micro-entities unlike the FRSSSE, but does incorporate those relating to the financial statements. Micro-entities will need to satisfy themselves that they have met all their legal requirements.
Terminology used consistent with FRS 102	FRS 105 uses terminology consistent with FRS 102 such as ‘statement of financial position’ rather than ‘balance sheet’. A table of equivalence is included in Appendix II to FRS 105 for convenience.

2.6. KEY DIFFERENCES BETWEEN SECTION 1A OF FRS 102 AND THE FRSSE

Table 5: Key differences between Section 1A of FRS 102 and the FRSSE	
Key features of Section 1A of FRS 102:	
Preparation of only two primary statements required	Small entities are only required to prepare a balance sheet and profit and loss account and not a statement of recognised gains and losses (STRGL) or a cash flow statement.
Reduced number of mandatory disclosures	Small entities are only legally required to provide a limited number of specified disclosures. However, directors of small entities are still required to ensure the financial statements provide a true and fair view and therefore must consider what additional information may be needed to achieve this and provide that information.
More helpful guidance included	In many instances, the requirements of Section 1A of FRS 102 do not differ from those of the FRSSE, however more guidance is provided in FRS 102 to help preparers apply and interpret the treatment required.
Improved reporting for financial instruments	FRS 102 will require recognition of some financial instruments that the FRSSE did not. In particular, small entities will need to recognise derivatives such as options, swaps and forward contracts at fair value.
Removal of contract rate accounting for foreign currency transactions	FRS 102 does not permit the use of contract rate accounting in relation to foreign currency transactions and a small entity must apply the hedge accounting requirements of FRS 102 instead if they wish to achieve similar accounting results.
Deferred tax arising on revaluations	FRS 102 requires small entities to recognise deferred tax arising on revaluations of fixed assets.
Addition of the performance method of accounting for government grants	FRS 102 permits an accounting policy choice between the accruals method (the method mandated in the FRSSE) and the performance method in relation to government grants. The performance method is simpler to apply and may lead to earlier recognition of income in the profit and loss account in some circumstances.
Gains / losses on investment properties recognised in profit or loss	FRS 102 requires that gains and losses on investment properties must be recognised in profit or loss, rather than in reserves as previously required by the FRSSE.
Not all company law requirements are reproduced	Section 1A of FRS 102 does not reproduce all the reporting requirements from company law applicable to small entities unlike the FRSSE, but does include those relating to the financial statements. Small entities will need to satisfy themselves that they have met all their legal requirements.
Terminology used consistent with FRS 102	Section 1A of FRS 102 uses terminology consistent with the rest of FRS 102 such as 'statement of financial position' rather than 'balance sheet'. A table of equivalence is included in Appendix III to FRS 102 for convenience.

3. FRS 102 SECTION 1A – SMALL ENTITIES

3.1. THE REQUIREMENTS

The new Section 1A for small entities comprises just 22 paragraphs as follows – with the FRC’s controversial “encouragements” highlighted in italics:

Scope of this section

- 1A.1 This section sets out the information that shall be presented and disclosed in the financial statements of a small entity that chooses to apply the small entities regime. Unless excluded below, all of the requirements of this FRS apply to a small entity, including the recognition and measurement requirements.
- 1A.2 Unless a small entity chooses to apply EU-adopted IFRS, or if eligible, FRS 101, a small entity that chooses not to apply the small entities regime shall apply FRS 102 excluding Section 1A.
- 1A.3 References to a small entity in paragraphs 1A.4 to 1A.22 and the Appendices to Section 1A are to a small entity that chooses to apply the small entities regime.
- 1A.4 This section applies to all small entities applying the small entities regime, whether or not they report under the Act. Small entities that do not report under the Act shall comply with the requirements of this section, and with the Small Companies Regulations (or, where applicable, the Small LLP Regulations) where referred to in this section, except to the extent that these requirements are not permitted by any statutory framework under which such entities report.

True and fair view

- 1A.5 The financial statements of a small entity shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period (Section 393 of the Act).
- 1A.6 A small entity may need to provide disclosures in addition to those set out in this section in order to comply with the requirement of paragraph 1A.5 (see also paragraphs 1A.16 and 1A.17).

Complete set of financial statements of a small entity

- 1A.7 A small entity is not required to comply with the requirements of paragraphs 3.3, PBE3.3A, 3.9, 3.17, 3.18, 3.19 and 3.24(b) which relate to presentation and disclosure requirements that are not required of small companies in company law, Section 4 Statement of Financial Position, Section 5 Statement of Comprehensive Income and Income Statement, Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings and Section 7 Statement of Cash Flows.
- 1A.8 Instead a complete set of financial statements of a small entity shall include all of the following:

- (a) a statement of financial position as at the reporting date in accordance with paragraph 1A.12;
 - (b) an income statement for the reporting period in accordance with paragraph 1A.14; and
 - (c) notes in accordance with paragraphs 1A.16 to 1A.20.
- 1A.9 In addition to the statements required by company law and set out in paragraph 1A.8:
- (a) when a small entity recognises gains or losses in other comprehensive income it is encouraged to present a statement of total comprehensive income (see Section 5); and***
 - (b) when a small entity has transactions with equity holders it is encouraged to present a statement of changes in equity, or a statement of income and retained earnings, (see Section 6), in order to meet the requirements of paragraph 1A.5.***
- 1A.10 In accordance with paragraph 3.14 a small entity shall present comparative information in respect of the preceding period for all amounts presented in the current period's financial statements, except when this FRS permits or requires otherwise.
- 1A.11 In accordance with paragraph 3.22 a small entity may use titles for the financial statements other than those used in this FRS as long as they are not misleading.

Information to be presented in the statement of financial position

- 1A.12 A small entity shall present a statement of financial position in accordance with the requirements for a balance sheet set out in either Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations or Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations.
- 1A.13 Guidance on applying these requirements is set out in Appendix A to this section, which shall be applied by a small entity.

Information to be presented in the income statement

- 1A.14 A small entity shall present its profit or loss for a period in an income statement in accordance with the requirements for a profit and loss account set out in either Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations or Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations.
- 1A.15 Guidance on applying these requirements is set out in in Appendix B to this section, which shall be applied by a small entity.

Information to be presented in the notes to the financial statements

- 1A.16 A small entity shall present sufficient information in the notes to the financial statements to meet the requirement for the financial statements to give a true and fair view of the assets, liabilities,

financial position and profit or loss of the small entity for the reporting period.

- 1A.17 ***A small entity is not required to comply with the disclosure requirements of Section 3 (to the extent set out in paragraph 1A.7) and Sections 8 to 35 of this FRS. However, because those disclosures are usually considered relevant to giving a true and fair view, a small entity is encouraged to consider and provide any of those disclosures that are relevant to material transactions, other events or conditions of the small entity in order to meet the requirement set out in paragraphs 1A.5 and 1A.16. In accordance with paragraph 3.16A a small entity need not provide a specific disclosure (including those set out in paragraph 1A.18 and Appendix C to this section) if the information is not material.***
- 1A.18 As a minimum, where relevant to its transactions, other events and conditions, a small entity shall provide the disclosures set out in Appendix C to this section.
- 1A.19 The paragraphs of Sections 8 to 35 of this FRS that are cross-referenced in Appendix C are also highlighted in those sections by including an * in the left-hand margin.
- 1A.20 ***In addition, a small entity is encouraged to make the disclosures set out in Appendix D to this section, which may nevertheless be necessary to give a true and fair view.***

Voluntary preparation of consolidated financial statements

- 1A.21 A small entity that is a parent entity is not required to prepare consolidated financial statements.
- 1A.22 If a small entity that is a parent entity voluntarily chooses to prepare consolidated financial statements it:
- (a) shall apply the consolidation procedures set out in Section 9 Consolidated and Separate Financial Statements;
 - (b) is encouraged to provide the disclosures set out in paragraph 9.23;
 - (c) shall comply so far as practicable with the requirements of Section 1A as if it were a single entity (Schedule 6 of the Small Companies Regulations, paragraph 1(1)), subject to any restrictions or exemptions set out in legislation; and
 - (d) shall provide any disclosures required by Schedule 6 of the Small Companies Regulations.

3.2. THE APPENDICES

The requirements in new Section 1A for small entities supplemented with four appendices – which are all integral parts of the standard.

Appendix A - Guidance on adapting the balance sheet formats

1AA.1 As set out in paragraph 1A.12 a small entity shall present a statement of financial position in accordance with the requirements for a balance sheet set out in either Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations or Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations. This results in three alternatives:

- (a) apply the required balance sheet formats as set out in legislation (subject to any permitted flexibility);
- (b) draw up an abridged balance sheet (see paragraph 1AA.2); or
- (c) adapt one of the balance sheet formats (see paragraphs 1AA.3 to 1AA.6 [not reproduced here]).

1AA.2 A small entity choosing to apply paragraph 1A(1) of Schedule 1 to the Small Companies Regulations and draw up an abridged balance sheet must still meet the requirement for the financial statements to give a true and fair view. A small entity shall therefore also consider the requirements of paragraph 1A.16, and provide any additional disclosure that is necessary in the notes to the financial statements, for example in relation to disaggregating the information in the balance sheet.

Appendix B - Guidance on adapting the profit and loss account formats

1AB.1 As set out in paragraph 1A.14 a small entity shall present its profit or loss for a period in an income statement in accordance with the requirements for a profit and loss account set out in either Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations or Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations. This results in three alternatives:

- (a) apply the required profit and loss account formats as set out in legislation (subject to any permitted flexibility);
- (b) draw up an abridged profit and loss account (see paragraph 1AB.2); or
- (c) adapt one of the profit and loss account formats (see paragraphs 1AB.3 and 1AB.4 [not reproduced here]).

1AB.2 A small entity choosing to apply paragraph 1A(2) of Schedule 1 to the Small Companies Regulations and draw up an abridged profit and loss account must still meet the requirement for the financial statements to give a true and fair view. A small entity shall therefore also consider the requirements of paragraph 1A.16 and provide any additional disclosure that is necessary in the notes to the financial statements, for example in relation to disaggregating gross profit or loss and disclosing turnover.

Appendix C - Disclosure requirements for small entities

This appendix sets out the disclosure requirements for small entities based on the requirements of company law. These are shown in italic font in the paragraphs below. Other than substituting company law terminology with the equivalent terminology used in FRS 102 the drafting is as close as possible to that set out in company law. References to Schedule 1 are to Schedule 1 of the Small Companies Regulations. Where there is a similar disclosure requirement in FRS 102 this has been indicated and those paragraphs of FRS 102 that have been cross-referenced are also highlighted by including an * in the left-hand margin. In many cases compliance with the similar requirement of FRS 102 will result in compliance with the requirements below.

1AC.1 As a minimum, where relevant to its transactions, other events and conditions, a small entity shall provide the disclosures set out in this Appendix.

1AC.2 The notes must be presented in the order in which, where relevant, the items to which they relate are presented in the statement of financial position and in the income statement. (Schedule 1, paragraph 42(2))

Paragraphs 8.3 and 8.4 address similar requirements.

Accounting policies

1AC.3 The accounting policies adopted by the small entity in determining the amounts to be included in respect of items shown in the statement of financial position and in determining the profit or loss of the small entity must be stated (including such policies with respect to the depreciation and impairment of assets). (Schedule 1, paragraph 44)

Paragraph 8.5 addresses similar requirements. Including information about the judgements made in applying the small entity's accounting policies, as set out in paragraph 8.6, may be useful to users of the small entity's financial statements.

1AC.4 If any amount is included in a small entity's statement of financial position in respect of development costs, the note on accounting policies must include the following information:

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off; and*
- (b) the reasons for capitalising the development costs in question. (Schedule 1, paragraph 21(2))*

Paragraph 18.27(a) addresses similar requirements to paragraph 1AC.4(a).

1AC.5 Where development costs are shown or included as an asset in the small entity's financial statements and the amount is not treated

as a realised loss because there are special circumstances justifying this, a note to the financial statements must state the reasons for showing development costs as an asset and that it is not a realised loss. (Section 844 of the Act)

1AC.6 Where in exceptional cases the useful life of intangible assets cannot be reliably estimated, there must be disclosed in a note to the financial statements the period over which those intangible assets are being written off and the reasons for choosing that period. (Schedule 1, paragraph 22(4))

Intangible assets include goodwill. Paragraphs 18.27(a) and 19.25(g) address similar requirements.

Changes in presentation and accounting policies and corrections of prior period errors

1AC.7 Where there is a change in the presentation of a small entity's statement of financial position or income statement, particulars of any such change must be given in a note to the financial statements in which the new presentation is first used, and the reasons for the change must be explained. (Schedule 1, paragraph 2(2))

Paragraphs 3.12 and 3.13 address similar requirements.

1AC.8 Where the corresponding amount for the immediately preceding financial year is not comparable with the amount to be shown for the item in question in respect of the reporting period, and the corresponding amount is adjusted, the particulars of the noncomparability and of any adjustment must be disclosed in a note to the financial statements. (Schedule 1, paragraph 7(2))

This is likely to be relevant where there has either been a change in accounting policy or the correction of a material prior period error. Paragraphs 10.13, 10.14 and 10.23 address similar requirements.

1AC.9 Where any amount relating to a preceding reporting period is included in any item in the income statement, the effect must be stated. (Schedule 1, paragraph 61(1))

True and fair override

1AC.10 If it appears to the small entity that there are special reasons for departing from any of the principles set out in company law in preparing the small entity's financial statements in respect of any reporting period, it may do so, in which case particulars of the departure, the reasons for it, and its effects must be given in the notes to the financial statements. (Schedule 1, paragraph 10(2))

This is only expected to occur in special circumstances. Paragraphs 3.4 and 3.5 address similar requirements.

Notes supporting the statement of financial position

1AC.11 Where an asset or liability relates to more than one item in the statement of financial position, the relationship of such asset or liability to the relevant items must be disclosed either under those items or in the notes to the financial statements. (Schedule 1, paragraph 9A)

Fixed assets

1AC.12 *In respect of each item which is shown under the general item 'fixed assets' in the small entity's statement of financial position the following information must be given:*

(a) the aggregate amounts (on the basis of cost or revaluation) in respect of that item as at the date of the beginning of the reporting period and as at the reporting date respectively;

(b) the effect on any amount shown in the statement of financial position in respect of that item of:

(i) any revision of the amount in respect of any assets included under that item made during the reporting period as a result of revaluation;

(ii) acquisitions during the reporting period of any assets;

(iii) disposals during the reporting period of any assets; and

(iv) any transfers of assets of the small entity to and from that item during the reporting period. (Schedule 1, paragraphs 48(1) and 48(2))

1AC.13 *In respect of each item within paragraph 1AC.12 there must also be stated:*

(a) the cumulative amount of provisions for depreciation and impairment of assets included under that item as at the date of the beginning of the reporting period and as at the reporting date respectively;

(b) the amount of any such provisions made in respect of the reporting period;

(c) the amount of any adjustments made in respect of any such provisions during the reporting period in consequence of the disposal of any assets; and

(d) the amount of any other adjustments made in respect of any such provisions during the reporting period. (Schedule 1, paragraph 48(3))

These two paragraphs apply to all fixed assets, including investment property, property, plant and equipment, intangible assets (including goodwill), fixed asset investments, biological assets and heritage assets recognised in the statement of financial position.

Each item refers to a class of fixed assets shown separately either in the statement of financial position, or in the notes to the financial statements.

These reconciliations need not be presented for prior periods.

Paragraph 16.10(e) addresses similar requirements for investment property. Paragraphs 17.31(d) and (e) address similar requirements for property, plant and equipment. Paragraphs 18.27(c) and (e) address similar requirements for intangible assets other than goodwill. Paragraph 19.26 addresses similar requirements for goodwill. Paragraphs 34.7(c) and 34.10(e) address similar requirements for biological assets. Paragraphs 34.55(e) and (f) address similar requirements for heritage assets recognised in the statement of financial position.

Fixed assets measured at revalued amounts

1AC.14 When fixed assets are measured at revalued amounts the items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item must be disclosed in the note on accounting policies. (Schedule 1, paragraph 34(2))

These requirements apply when:

- investments in subsidiaries, associates and joint ventures are measured at fair value with changes in fair value recognised in other comprehensive income. Paragraph 9.27(b) addresses a similar disclosure requirement;
- property, plant and equipment are revalued using the revaluation model set out in paragraphs 17.15B to 17.15F. Paragraph 17.31(a) addresses a similar disclosure requirement; and
- intangible assets other than goodwill are revalued using the revaluation model set out in paragraphs 18.18B to 18.18H.

These requirements do not apply to investment property and biological assets measured at fair value through profit or loss.

1AC.15 Where any fixed assets of the small entity (other than listed investments) are included under any item shown in the small entity's statement of financial position at a revalued amount, the following information must be given:

- (a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values;*
- (b) in the case of assets that have been valued during the reporting period, the names of the persons who valued them or particulars of their qualifications for doing so and (whichever is stated) the bases of valuation used by them. (Schedule 1, paragraph 49)*

Paragraphs 17.32A(a) and (c), 18.29A(a) and (c) and 34.55(e)(ii) address similar requirements. These paragraphs do not require the names or qualifications of the persons who valued the fixed assets to be disclosed; paragraphs 17.32A(b) and 18.29A(b) address only whether or not the valuer was independent.

These requirements apply in the same circumstances as those set out in paragraph 1AC.14.

1AC.16 In the case of each item in the statement of financial position measured at a revalued amount, the comparable amounts determined according to the historical cost accounting rules must be shown in a note to the financial statements. (Schedule 1, paragraph 34(3))

The comparable amounts refers to the aggregate amount of cost and the aggregate of accumulated depreciation and accumulated impairment losses that would have been required according to the historical cost accounting rules (Schedule 1, paragraph 34(4)).

Paragraphs 17.32A(d) and 18.29A(d) address similar requirements.

These requirements apply in the same circumstances as those set out in paragraph 1AC.14.

1AC.17 Where fixed assets are measured at revalued amounts the following information must be given in tabular form:
(a) movements in the revaluation reserve in the reporting period, with an explanation of the tax treatment of items therein; and
(b) the carrying amount in the statement of financial position that would have been recognised had the fixed assets not been revalued. (Schedule 1, paragraph 54(2))

Paragraphs 6.3A, 17.32A(d), 18.29A(d) and 29.27(a) address similar requirements.

These requirements apply in the same circumstances as those set out in paragraph 1AC.14.

1AC.18 The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the financial statements. (Schedule 1, paragraph 35(6))

Paragraph 29.27(a) addresses similar requirements.

These requirements apply in the same circumstances as those set out in paragraph 1AC.14.

Capitalisation of borrowing costs

1AC.19 When a small entity adopts a policy of capitalising borrowing costs, the inclusion of interest in determining the cost of the asset and the amount of the interest so included is disclosed in a note to the financial statements. (Schedule 1, paragraph 27(3))

Paragraph 25.3A(a) addresses a similar requirement to the second part of this.

Impairment of assets

1AC.20 Provisions for impairment of fixed assets (including fixed asset investments) must be disclosed separately in a note to the financial statements if not shown separately in the income statement. (Schedule 1, paragraph 19(3))

Paragraph 27.32(a) addresses similar requirements.

1AC.21 Any provisions for impairment of fixed assets that are reversed because the reasons for which they were made have ceased to apply must be disclosed (either separately or in aggregate) in a note to the financial statements if not shown separately in the income statement. (Schedule 1, paragraph 20(2))

Paragraph 27.32(b) addresses similar requirements.

Fair value measurement

1AC.22 Where financial instruments or other assets have been measured at fair value through profit or loss there must be stated:
(a) the significant assumptions underlying the valuation models and techniques used to determine the fair values;
(b) for each category of financial instrument or other asset, the fair value of the assets in that category and the change in value:
(i) included directly in the income statement; or
(ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those assets. (Schedule 1, paragraphs 51(2)(a) and (b))

This does not apply where financial instruments or other assets are measured at fair value only on initial recognition.

This applies where financial instruments, certain inventories, investment property and biological assets are subsequently measured at fair value through profit or loss, which is permitted or required by paragraphs 9.26(c), 11.14(b), 11.14(d)(i), 12.8, 13.4A, 14.4(d), 15.9(d), 16.7 and 34.4.

Paragraphs 11.41(a), 11.41(d), 11.43, 11.48(a)(i), 11.48(a)(ii), 12.28, 12.29(c), and 12.29(e) address similar disclosure requirements for financial instruments. Paragraphs 16.10(a) and 16.10(e)(ii) address similar disclosure requirements for investment property. Paragraphs 34.7(c)(i) and 34.7(b) address similar disclosure requirements for biological assets.

1AC.23 Where financial instruments or other assets have been measured at fair value through profit or loss there must be stated for each

class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows. (Schedule 1, paragraph 51(2)(c))

1AC.24 *Where any amount is transferred to or from the fair value reserve during the reporting period, there must be stated in tabular form:*

(a) the amount of the reserve as at the beginning of the reporting period and as at the reporting date respectively; and

(b) the amount transferred to or from the reserve during that year. (Schedule 1, paragraph 51(3))

Paragraphs 6.3A, 12.29(c) and 12.29(d) address similar requirements.

1AC.25 *The treatment for taxation purposes of amounts credited or debited to the fair value reserve must be disclosed in a note to the financial statements. (Schedule 1, paragraph 41(2))*

Paragraph 29.27(a) addresses similar requirements.

Financial instruments measured at fair value

1AC.26 *Financial instruments which under international accounting standards may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made. (Schedule 1, paragraph 36(4))*

This only applies in certain circumstances; for example, it does not apply to derivatives. It applies where investments in subsidiaries, associates and joint ventures are measured at fair value through profit or loss. When it applies, the disclosures required by Section 11 that relate to financial assets and financial liabilities measured at fair value, including paragraph 11.48A, shall be given.

Indebtedness, guarantees and financial commitments

1AC.27 *For the aggregate of all items shown under ‘creditors’ in the small entity’s statement of financial position there must be stated the aggregate of the following amounts:*

(a) the amount of any debts included under ‘creditors’ which are payable or repayable otherwise than by instalments and fall due for payment or repayment after the end of the period of five years beginning with the day next following the reporting date; and

(b) in the case of any debts so included which are payable or repayable by instalments, the amount of any instalments which fall due for payment after the end of that period. (Schedule 1, paragraph 55(1))

1AC.28 *In respect of each item shown under ‘creditors’ in the small entity’s statement of financial position there must be stated the aggregate amount of any debts included under that item in respect of which any security has been given by the small entity with an indication of the nature and form of any such security. (Schedule 1, paragraph 55(2))*

Paragraphs 11.46, 13.22(e), 16.10(c), 17.32(a) and 18.28(c) address similar requirements.

1AC.29 The total amount of any financial commitments, guarantees and contingencies that are not included in the balance sheet must be stated. (Schedule 1, paragraph 57(1)) The total amount of any commitments concerning pensions must be separately disclosed. (Schedule 1, paragraph 57(3)) The total amount of any commitments which are undertaken on behalf of or for the benefit of:

(a) any parent, fellow subsidiary or any subsidiary of the small entity; or

(b) any undertaking in which the small entity has a participating interest, must be separately stated and those within (a) must also be stated separately from those within (b). (Schedule 1, paragraph 57(4))

Such commitments can arise in a variety of situations, including in relation to group entities, investments, property, plant and equipment, leases and pension obligations. Paragraphs 15.19(d), 16.10(d), 17.32(b), 18.28(d), 20.16, 21.15, 28.40A(a), 28.40A(b), 28.41A(d), 33.9(b)(ii) and 34.62 address similar requirements.

1AC.30 An indication of the nature and form of any valuable security given by the small entity in respect of commitments, guarantees and contingencies within paragraph 1AC.29 must be given. (Schedule 1, paragraph 57(2))

Paragraphs 11.46, 13.22(e), 16.10(c), 17.32(a) and 18.28(c) address similar requirements.

1AC.31 If in any reporting period a small entity is or has been party to arrangements that are not reflected in its statement of financial position and at the reporting date the risks or benefits arising from those arrangements are material the nature and business purpose of the arrangements must be given in the notes to the financial statements to the extent necessary for enabling the financial position of the small entity to be assessed. (Section 410A of the Act)

Examples of off-balance sheet arrangements include risk and benefit-sharing arrangements or obligations arising from a contract such as debt factoring, combined sale and repurchase arrangements, consignment stock arrangements, take or pay arrangements, securitisation arranged through separate entities, pledged assets, operating lease arrangements, outsourcing and the like. In many cases the disclosures about financial commitments and contingencies required by paragraphs 1AC.29 and 1AC.30 will also address such arrangements.

Notes supporting the income statement

1AC.32 The amount and nature of any individual items of income or expenses of exceptional size or incidence must be stated. (Schedule 1, paragraph 61(2))

Paragraph 5.9A addresses a similar requirement in relation to material items.

1AC.33 The notes to a small entity's financial statements must disclose the average number of persons employed by the small entity in the reporting period. (Section 411 of the Act)

Related party disclosures

1AC.34 Where the small entity is a subsidiary, the following information must be given in respect of the parent of the smallest group for which consolidated financial statements are drawn up of which the small entity is a member:

(a) the name of the parent which draws up the consolidated financial statements;

(b) the address of the parent's registered office (whether in or outside the UK); or

(c) if it is unincorporated, the address of its principal place of business. (Schedule 1, paragraph 65)

Paragraph 33.5 addresses a similar requirement to paragraph (a).

1AC.35 Particulars must be given of material transactions the small entity has entered into that have not been concluded under normal market conditions with:

(a) owners holding a participating interest in the small entity;

(b) companies in which the small entity itself has a participating interest; and

(c) the small entity's directors [or members of its governing body].

Particulars must include:

(a) the amount of such transactions;

(b) the nature of the related party relationship; and

(c) other information about the transactions necessary for an understanding of the financial position of the small entity.

Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of the related party transactions on the financial position of the small entity.

Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member. (Schedule 1, paragraph 66)

Although disclosure is only required of material transactions with the specified related parties that have not been concluded under normal market conditions, small entities disclosing all transactions with such related parties would still be compliant with company law.

Transactions with directors, or members of an entity's governing body, include directors' remuneration and dividends paid to directors.

Paragraphs 33.9 and 33.14 address similar requirements for all related parties.

1AC.36 Details of advances and credits granted by the small entity to its directors and guarantees of any kind entered into by the small entity on behalf of its directors must be shown in the notes to the financial statements.

The details required of an advance or credit are:

- (a) its amount;*
- (b) an indication of the interest rate;*
- (c) its main conditions;*
- (d) any amounts repaid;*
- (e) any amounts written off; and*
- (f) any amounts waived.*

There must also be stated in the notes to the financial statements the totals of amounts stated under (a), (d), (e) and (f).

The details required of a guarantee are:

- (a) its main terms;*
- (b) the amount of the maximum liability that may be incurred by the small entity; and*
- (c) any amount paid and any liability incurred by the small entity for the purpose of fulfilling the guarantee (including any loss incurred by reason of enforcement of the guarantee).*

There must also be stated in the notes to the financial statements the totals of amounts stated under (b) and (c). (Section 413 of the Act)

Paragraph 33.9 addresses similar requirements for all related parties.

A small entity that is not a company shall provide this disclosure in relation to members of its governing body.

Other

1AC.37 The financial statements must state:

- (a) the part of the UK in which the small entity is registered;*
- (b) the small entity's registered number;*
- (c) whether the small entity is a public or a private company and whether the small entity is limited by shares or by guarantee;*
- (d) the address of the small entity's registered office; and*

*(e) where appropriate, the fact that the entity is being wound up.
(Section 396 of the Act)*

Paragraph 3.24(a) addresses similar requirements.

1AC.38 Where items to which Arabic numbers are given in any of the formats have been combined, unless they are not material, the individual amounts of any items which have been combined must be disclosed in a note to the financial statements. (Schedule 1, paragraph 4(3))

1AC.39 The nature and financial effect of material events arising after the reporting date which are not reflected in the income statement or statement of financial position must be stated. (Schedule 1, paragraph 64)

Paragraphs 32.10 and 32.11 address similar requirements.

Appendix D - Additional disclosures encouraged for small entities

1AD.1 Where relevant to its transactions, other events and conditions, a small entity is encouraged to provide the following disclosures:

- (a) a statement of compliance with this FRS as set out in paragraph 3.3, adapted to refer to Section 1A;
- (b) a statement that it is a public benefit entity as set out in paragraph PBE3.3A;
- (c) the disclosures relating to going concern set out in paragraph 3.9;
- (d) dividends declared and paid or payable during the period (for example, as set out in paragraph 6.5(b)); and
- (e) on first-time adoption of this FRS an explanation of how the transition has affected its financial position and financial performance as set out in paragraph 35.13.

3.3. OTHER AMENDMENTS TO FRS 102

A small number of amendments were necessary to maintain consistency between FRS 102 and company law. This was not a comprehensive review of the requirements of FRS 102.

The amendments include:

- a) Greater flexibility in relation to the format of the profit and loss account and balance sheet, which will allow entities choosing this option to adopt a presentation that is closer to that applied by entities preparing 'IAS accounts'. The Accounting Council advises that these new options available in company law should be available to entities applying FRS

102, but that a framework should be provided in FRS 102 to assist entities applying it.

- b) Revising the maximum period over which goodwill and other intangible assets may be amortised to 10 years, in those exceptional cases where an entity is unable to make a reliable estimate of the asset's useful economic life. The Accounting Council advises that, as this only applies in exceptional cases, the change in the maximum period so soon after it was introduced in the first edition of FRS 102 should have a limited impact in practice.
- c) Prohibiting the reversal of impairment losses for goodwill.

4. FRS 105 – THE FRS APPLICABLE TO THE MICRO ENTITIES REGIME

4.1. ACCOUNTING SIMPLIFICATIONS COMPARED TO FRS 102

The key areas where simplifications have been made are:

- a) Prohibition of accounting for deferred taxation on the basis that this is a complex area of accounting and the lack of disclosure in a micro-entity's financial statements make it impossible to distinguish between current and deferred tax.
- b) Prohibition of accounting for equity-settled share-based payments prior to the issue of the shares, because of the prohibition to use fair value measurements and lack of supporting disclosure in the financial statements.
- c) A requirement that the contributions payable to any post-employment benefit plans are accounted for as an expense, subject to a requirement for defined benefit plans to recognise a liability for a schedule of contributions to the extent that it relates to the deficit. The simplification was made on the basis that very few micro-entities will have defined benefit pension schemes.
- d) Requirement to use contracted rates to translate foreign currency denominated assets and liabilities rather than spot rates. This will simplify the accounting when micro-entities enter into foreign currency forward contracts.
- e) All borrowing and development costs must be expensed, because this is considered the simplest option of accounting for these costs.
- f) Mandating the application of the accrual model to account for government grants because this is considered the simplest method of accounting for these transactions.
- g) Simplifications in relation to the accounting for financial instruments as far as the allocation of interest and transaction costs is concerned. The effective interest rate method is considered too onerous to apply by micro-entities.
- h) Removal of the requirement to impute a market-rate of interest in lending arrangements conducted at non-market rates because considering the nature and size of micro-entities the costs of mandating this requirement would exceed the benefits.
- i) Simplified requirements for classifying financial instruments as equity or debt because most micro-entities will issue simple equity instruments.

4.2. ONEROUS CONTRACTS

FRS 105's requirements concerning onerous contracts are as follows:

16.13 If a micro-entity has an onerous contract, the present obligation under the contract shall be recognised and measured as a provision.

FRS 105's requirements concerning derivative instruments are as follows:

9.20 At each reporting date a micro-entity shall assess whether a derivative constitutes an onerous contract. A derivative is an onerous contract when the expected unavoidable payments exceed the economic benefits expected to be received from the derivative. A derivative which does not mitigate a specific risk or risks of a micro-entity is an onerous contract when the expected payments exceed the expected cash receipts under the contract. The present obligation arising from an onerous contract shall be measured in accordance with Section 16.

Example: Assessment of whether a derivative is onerous

A micro-entity takes out a loan with a variable rate of interest. In order to mitigate the risk of fluctuating interest payments, the micro-entity enters into an interest rate swap. Through the interest rate swap the micro-entity pays a fixed rate of interest and receives a variable rate of interest equal to the interest on the loan.

Scenario 1:

Interest rates are going down and as a result the payments made by the micro entity under the interest rate swap are higher than the receipts. The interest rate swap is not an onerous contract because the micro-entity continues to benefit from the interest rate swap by effectively paying a fixed rate of interest on the loan.

Scenario 2:

The micro-entity repays the loan early, but the interest rate swap cannot be terminated. The micro-entity expects that the payments due under the interest rate swap exceed the receipts. The interest rate swap is an onerous contract because the micro-entity no longer derives a benefit from it.

4.3. REVISED CHOICES - MICRO COMPANIES

Accounts to 31 December 2015/31 March 2016/30 June 2016/30 September 2016:

- Micro regime + FRSSE (effective January 2015); or
- Micro regime + FRS 105 – early adoption
- Small company regime + FRSSE (effective January 2015); or
- Small company regime + FRS 102; or
- Small company regime + FRS 102 (Section 1A) – early adoption

Accounts to 31 December 2016/31 March 2017/30 June 2017/30 September 2017:

- Micro regime + FRS 105
- Small company regime + FRS 102; or
- Small company regime + FRS 102 (Section 1A)

4.4. REVISED CHOICES - SMALL COMPANIES

Accounts to 31 December 2015/31 March 2016/30 June 2016/30 September 2016:

- Small company regime + FRSSE (effective January 2015); or
- Small company regime + FRS 102; or
- Small company regime + FRS 102 (Section 1A) – early adoption

Accounts to 31 December 2016/31 March 2017/30 June 2017/30 September 2017:

- Small company regime + FRS 102; or
- Small company regime + FRS 102 (Section 1A)

4.5. REVISED CHOICES - MEDIUM SIZED COMPANIES

Accounts to 31 December 2015:

- FRS 102

Accounts to 31 December 2016:

- FRS 102

NB: If a medium sized company qualified as small under the new thresholds for accounting periods commencing on or after 1 January 2016, it could adopt the new legislation one year early and follow FRS 102 (Section 1A)