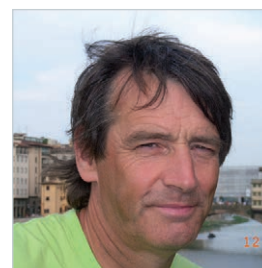


# Small Entity Reporting – Major Changes on the Way

In this article Robert outlines the major changes on the way in small entity reporting under FRS 102.



## Introduction

Under EU law member states are required to implement the EU Directive 2012/6/ EU of the European Parliament and of the Council (**"the Micros Directive"**). The Small Companies (Micro-Entities' Accounts) Regulations 2013 were approved by the UK Government in November 2013 and introduce major (but optional) accounting exemptions for micro-entities. No legislation is currently in existence in the Republic of Ireland but it is expected early next year and will probably be made retrospective so that reporting entities can apply the new rules for accounts commencing on the 1<sup>st</sup> January 2016.

This article will focus on the changes being introduced by FRS 102 in Section 1A but a future article will look in detail at the new micro standard, FRS 105, when it is finally implemented in the Republic of Ireland.

## The changes to FRS 102

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 also provided 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 and therefore a number of minor amendments have also taken place in the main body of FRS 102. The changes will be applicable for accounting periods beginning on or after 1 January 2016.

## The new financial reporting framework

Company law recognises two financial reporting frameworks – IFRS and Irish 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 and subsidiary accounts. Other entities have a free choice between the two frameworks.

Smaller entities currently have a choice between two core Irish GAAP regimes subject to meeting relevant criteria:

- 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.

At present, qualification as a small company is set out in section 350 of The Companies Act 2014. The current size criteria are:

Turnover not exceeding	€8.8m
Balance Sheet total not exceeding	€4.4m and
Number of employees not exceeding	50

The selection of the most appropriate regime to apply will depend on a number of factors including:

- Whether an entity is eligible to apply that particular regime; and
- Where a choice of regime exists, entities should consider which of the regimes is the most appropriate to the individual circumstances of the entity.

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There are a number of factors to consider which will differ from company to company 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 small entities regime (Section 1A Small Entities of FRS 102)**

Section 1A Small Entities of FRS 102 has been developed specially around the legal framework from the requirements of FRS 102 for entities that would previously have met the FRSSE criteria. The FRSSE is withdrawn for accounting periods beginning on or after 1<sup>st</sup> January 2016.

The recognition and measurement requirements of Section 1A are largely the same as those set out in the rest of FRS 102. The changes being brought in by company law through the EU legislation only mandate a limited number of specified disclosures. However, directors of small entities will be legally obligated to prepare accounts that give a true and fair view. In practical terms this will require more judgement of directors of small entities in considering what additional information (if any) is needed to ensure the accounts do provide a true and fair view.

Section 1A of FRS 102 does provide additional guidance to assist directors in that regard.

#### **Key features of Section 1A of FRS 102**

The new Section 1A of FRS 102 requires companies to prepare only two primary statements i.e. a balance sheet and profit and loss account and not a statement of recognised gains and losses (STRGL) or a cash flow statement. However, the section does encourage companies to provide a Statement of Comprehensive Income and a Statement of Changes in Equity where it might be helpful to users but these are not mandatory.

FRS 102 will require small entities to recognise derivatives such as options, swaps and forward contracts at fair value. In addition, the removal of contract rate accounting for foreign currency transactions means that a small entity must apply the hedge accounting requirements of FRS 102.

Deferred tax arising on revaluations will be required for the first time and in accounting for grants, FRS 102 has introduced the option of the performance method as an alternative to the accruals model of accounting for government grants.

The performance method is likely eventually to be the only model permitted as it fits neatly into the conceptual framework for accounting but, although simpler to apply, it will probably lead to earlier recognition of income in the profit and loss account in many circumstances.

Gains / losses on investment properties must be recognised in profit or loss rather than in reserves.

Section 1A of FRS 102 does not reproduce all the reporting requirements from company law applicable to small entities but does include those relating to the financial statements. Small entities will still need to satisfy themselves that they have met all their legal requirements.

Section 1A uses terminology consistent with the rest of FRS 102 such as 'statement of financial position' rather than 'balance sheet'. However, alternative titles will still be permissible.

### **Appendices to FRS 102 Section 1A**

In the back of Section 1A of the revised FRS 102 (September 2015) are a number of appendices to help preparers apply Section 1A to small entities. These are regarded as being integral to the standard.

Appendix A provides guidance on how to adapt the balance sheet formats so as to be in accordance with Company Law. In addition Appendix B does the same for the adaptation of the profit and loss account formats.

The most interesting aspect, however, of the Appendices is Appendix C which provides details of the disclosure requirements for small entities which the EU mandates.

The final Appendix D covers additional disclosures which are encouraged to be disclosed but are not mandatory.

### **Conclusion**

The various changes implemented by the Financial Reporting Council were supposed to make life simpler for both the practicing and industrial accountant in preparing the annual reports. However, the implementation of a five tier regime into local reporting seems to make life more difficult. In addition, the fact that the new Section 1A of FRS 102 does not necessarily provide a true and fair view means that Directors now have the additional onus of having to decide what additional disclosure is necessary to achieve that. In the next article I hope to summarise some of key requirements of the new FRS 105 provided it has been implemented by changes to Irish law in the meantime.