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The Companies (Accounting) Act 2017 was finally signed into Irish law on 17 May 2017, albeit two years behind schedule, and it implements the EU Accounting

Directive 2013/34/EU into Irish Law. It amends Part 6 of the Companies Act 2014 to incorporate the provisions in the Directive that relate to the annual financial statements of companies, including the introduction of optional simplified regimes for small and micro companies.

Section 15 of the 2017 Act has introduced a simpler financial reporting regime for small companies through the insertion of a new Chapter 1A into the 2014 Act and the insertion of new Schedules 3A and 4A specifically designed for small companies.

This article is intended to summarise the key changes for small companies that opt to use the small companies' regime. It must be remembered that a small entity can always report at a higher level of reporting using the full version of FRS 102 or even FRS 101 if they are a subsidiary company of a listed company.

The New Small Companies Accounting Regime

This article summarises the key changes for small companies that opt to use the small companies' regime

The legislation permits the small companies regime to be available for early adoption to financial statements relating to financial years beginning on or after 1 January 2015. Unfortunately most of these will already have been filed so realistically it will probably first be applied to 2016 year ends as those financial

statements may not yet have been approved and the law becomes mandatory for financial statements of financial years beginning on or after 1 January 2017.

The legislation enables small companies to apply Section 1A of FRS 102 which essentially was designed to reduce the volume of disclosure required by those companies.

Qualification as a small company, including a small group

The small companies regime is available to a private company (or holding company of a private group) in relation to a financial year in which it fulfils **two or more** of

the qualifying conditions set out in the table below, for at least two consecutive financial years:

	Qualifying condition Company	Qualifying condition Group
Turnover	€12m	€12m net (€14.4m gross)
Balance Sheet totals	€ 6m	€ 6m net (€7.2m gross)
Average number of employees	50	50

However, there are a number of exceptions to the size criteria above. These 'Ineligible entities' include undertakings that are:

- (a) Listed Securities
- (b) Credit institutions
- (c) Insurance undertakings
- (d) Various other undertakings, most of which are regulated by the Central Bank of Ireland and
- (e) Public interest entities (PIEs)

Even companies that meet the criteria will have to decide carefully whether or not they wish to opt for the small companies regime or instead apply the full requirements of FRS 102 or, in some circumstances, FRS 101.

The main features in FRS 102 Section 1A

FRS 102 Section 1A contains 22 paragraphs and a number of appendices detailing out guidance on how to prepare the primary statements under the Section as well as a list of both mandatory and optional disclosures.

The principle applied is that there should **not be recognition and measurement differences** from the requirements applicable to larger entities. This reinstates the principle of consistency in accounting policies between those entities that are smaller and those that are larger that applied when the FRSSE was originally developed.

A possible drawback of the new regime is that the financial statements of small companies must, under company law, present a true and fair view. Therefore, despite the fact that only a limited number of notes to the financial statements are mandated by company law under the small companies' regime, there is still an important onus on directors to apply judgement when considering whether further disclosures may also be required in order for the financial statements to give a true and fair view. That may reduce the attractiveness of opting for this option.

The main features of the small companies' regime are:

- A directors' report is still required but small companies are exempt from the requirement to provide a business review and to describe its use of financial instruments
- The formats of the financial statements are the same as those required for larger companies. They may also be adapted in the same manner as for larger companies (for example, the balance sheet can be adapted to distinguish between current / noncurrent items as is currently required under IFRS)
- A small entity is not required to comply with the requirements of paras 3.3, PBE3.3A, 3.9, 3.17, 3.18, 3.19 and 3.24(b) of FRS 102 which relate to presentation and disclosure requirements that are not required of small companies by the Companies Act, Section 4 Statement of Financial Position, Section 5 Statement of Comprehensive Income and Income Statement, Section 6 Statement of Changes in Equity, Statement of Income and Retained Earnings and Section 7 Statement of Cash Flows.

Instead a complete set of financial statements of a small entity should include all of the following:

- a **statement of financial position** as at the reporting date in accordance with para 1A.12;
- an **income statement** for the reporting period in accordance with para 1A.14; and
- notes** in accordance with paras 1A.16 to 1A.20.

Entities must present **comparative** information in respect of the preceding period for all amounts presented in the current period's financial statements, except when the FRS permits or requires otherwise.

- A small entity may also use titles for the financial statements other than those used in FRS 102 Section 1A as long as they are **not misleading**.

- A limited number of notes to the financial statements are mandated by company law for small companies but these are subject to providing a true and fair view (see above). The mandatory notes are summarised below:

Note Disclosures	2014 Act as amended by 2017 Act
Particulars of company / holding company	s291(3a) [s17(b) Act of 2017] Sch 3A, 58
Accounting principles and policies, and changes to accounting policies, general rules and formats	s321 [s37 Act of 2017]; Sch 3A, 12-19; Sch 3A, 3(2); s291(6); s291(7)
Directors' remuneration	s305 [s26 Act of 2017] s305A [s27 Act of 2017] s306 [s28 Act of 2017]
Directors' and Officers' (non-director) transactions: loans, quasi-loans, credit transactions and guarantees	s307-s308 [s29 Act of 2017] s309 [s30 Act of 2017]
Number of employees	s317(1)(a) [s33 Act of 2017]
Exceptional items	Sch 3A, 53
Appropriation of profit (if not presented in the profit and loss account or balance sheet) and movement in revaluation reserves	Sch 3A, 48 Sch 3A, 49
Value adjustments for impairment or diminution in value of fixed assets	Sch 3A, 23
Movements in fixed assets (no comparatives are required)	Sch 3A, 45 Sch 3A, 5(2)
Financial commitments, guarantees and contingencies	Sch 3A, 51
Assets pledged / liabilities secured	Sch 3A, 50(2)
Creditors: Amounts owed over five years	Sch 3A, 50(1)
Related party transactions with directors, subsidiaries, holding companies, associates, joint ventures and key shareholders	Sch 3A, 55
Off-balance sheet arrangements	s323 [s39 Act of 2017]
Holding of own shares or shares in holding undertaking	s320 [s36 Act of 2017]
Events after the end of the reporting period	Sch 3A, 56
Explanation of amortisation period of goodwill	Sch 3A, 25(4)
Interest on borrowing costs capitalised	Sch 3A, 29(3)(b)
Development costs capitalised	Sch 3A, 24(2)
Revalued fixed assets (under alternative accounting rules)	Sch 3A, 33(3), 34(3), 35(2) and (3)
Financial instruments, investment property, living animals and plants, at fair value	Sch 3A, 46-47 Sch 3A, 38(1)
Tax treatment of amounts credited or debited to revaluation reserve	Sch 3A, 36(6)
Particulars of assets and liabilities that are linked to each other or that have been offset	Sch 3A-4(7) Sch 3A-7

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However, Sections 1AA.2 and 1AB.2 of FRS 102 cannot be applied by Republic of Ireland companies as the option to further abridge balance sheets and profit and loss accounts in the statutory financial statements of small companies is not available under Irish law and there are other differences from the United Kingdom due to the various options available in applying the Directive. Directors' remuneration disclosures, for example, are required for small Irish companies and there is no provision under Irish law for stock to be carried at fair value (and therefore paragraph 13.3 of FRS 102 cannot be applied without a true and fair view override).

The balance sheet should contain in a prominent position above the signature(s) of the director(s), a statement that the statutory financial statements have been prepared in accordance with the small companies' regime. An example of this is provided below by the Institute in its pro forma sample financial statements for small entities:

We as Directors of Whatsnue Limited, state that:

(a) the company is availing itself of the audit exemption (and the exemption shall be expressed to be "the exemption provided for by Chapter 15 of Part 6 of the Companies Act 2014"),

(b) the company is availing itself of the exemption on the grounds that section 358 is complied with,

(c) no notice under subsection (1) of section 334 has, in accordance with subsection (2) of that section, been served on the company, and

(d) the company qualifies for the small companies regime on the grounds that section 280C of the Companies Act 2014 is complied with and the statutory financial statements have been prepared in accordance with the small companies regime.

(e) the directors acknowledge the obligations of the company, under this Act, to

(i) keep adequate accounting records and prepare statutory financial statements which give a true and fair view of the assets, liabilities and financial position of the company at the end of its financial year and of its profit or loss for such a year, and

(ii) otherwise comply with the provisions of this Act relating to statutory financial statements so far as they are applicable to the company.

On behalf of the board

[Signature]
James Hogan [Block Capitals]
Director
DATE

[Signature]
Daniel O'Shea [Block Capitals]
Director
DATE

Abridged financial statements for small companies

The statutory financial statements prepared under the small companies' regime and approved by the directors may, for filing purposes, be abridged. The full statutory

financial statements, however, must still be prepared and approved by the directors, and the abridged financial statements should be drawn from these statutory financial statements.

The good news is that there is still no requirement for these abridged financial statements to include a profit and loss account but the full statutory balance sheet and all notes to the statutory financial statements, including any notes that relate to profit and loss account items, must be retained. It should be noted that this represents a change from the abridged filing requirements for small companies set out previously in the Companies Act 2014 as, aside from having to file the full statutory balance sheet, only certain limited note disclosures were previously required from small companies.

Where a company has opted in its full statutory financial statements to include the appropriation of profit (as permitted by Schedule 3A, paragraph 48 introduced by the Act of 2017), on the face of its profit and loss account, it must provide this information in a note to its abridged financial statements.

As was the case under the Act of 2014, a holding company of a small group that elects to prepare group financial statements cannot file abridged financial statements.

Audit implications for small companies

Small companies / groups that qualify for the small companies' regime may be able to avail of the audit exemption. However, when assessing the size thresholds for audit exemption purposes, the wider group including all higher holding undertakings and fellow subsidiaries must be included, irrespective of the country of incorporation of all such higher holding undertakings. Various additional criteria (that already exist under current law) must also be met.

These other criteria include:

- ensuring that a notice requesting an audit (under Section 334 of the Act of 2014), has not been served by members holding 10% or more of the voting rights in the company / holding company, and
- that the company's / holding company's (and the other members of the group) annual return(s) with financial statements attached (as required by Section 363 of the Act of 2014, amended by Section 60 of the Act of 2017) is (are) filed on time (in accordance with Section 343 of the Act of 2014) in respect of the financial year in question and the preceding financial year.

Conclusion

It will be interesting to see how many companies opt for the new small companies regime. Clearly the advantages of being audit exempt will be a key consideration but there are issues in deciding what additional information should be required to provide a true and fair view as Directors will have to carefully consider all 300 disclosures contained in FRS 102 to decide which of these are necessary. In addition Section 1A encourages the inclusion of a Statement of Changes in Equity and a Statement of Cash Flows if it was felt that these primary statements would help provide a true and fair view.

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