Standards Overview

Accounting and Reporting

Financial Reporting Council

January 2022

Overview of the financial reporting framework

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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1 Introduction

1.1 This Overview describes the financial reporting framework applicable for accounting periods beginning on or after 1 January 2021 (early application is permitted subject to the provisions in each standard).

1.2 The *Overview of the financial reporting framework* issued by the FRC in July 2015 is superseded by this Overview and is accordingly withdrawn.

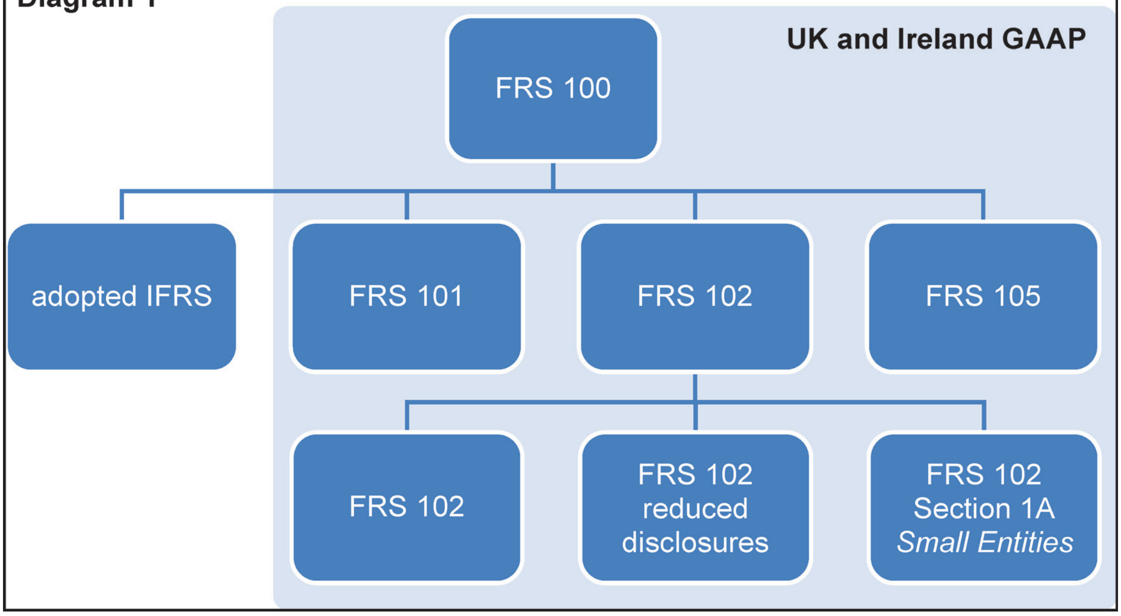
2 The financial reporting framework

2.1 UK and Irish company law each recognise two financial reporting frameworks – adopted IFRS and a framework based on specific company law requirements and accounting standards set by a prescribed body (the FRC). The latter framework is UK and Ireland GAAP (generally accepted accounting practice).

2.2 Publicly listed companies are required to apply adopted IFRS in the preparation of their group accounts but may choose between adopted IFRS and UK and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a choice between the two frameworks.

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

Diagram 1



UK and Ireland GAAP

2.4 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*.

Table 1: UK and Ireland GAAP					
Framework	**Micro-entities regime**	**Small entities regime**	**FRS 102**	**Reduced disclosures for subsidiaries and ultimate parents (FRS 102)**	**Reduced disclosure framework (FRS 101)**
Related accounting standard	FRS 105	Section 1A *Small Entities* of FRS 102	FRS 102	Paragraphs 1.8 to 1.13 of FRS 102	FRS 101

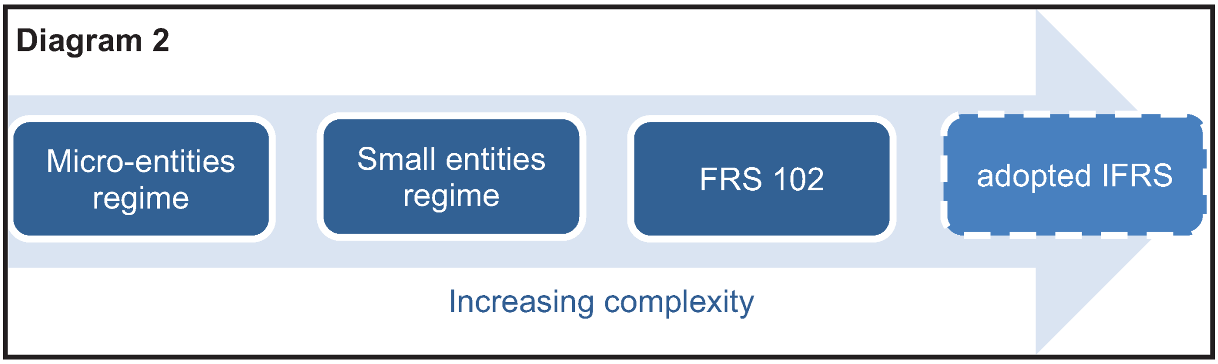
2.5 Some of the regimes are only available if the entity meets relevant criteria.

2.6 Entities that are part of a group may apply either of the reduced disclosure regimes. These additional options are discussed in more detail in Section 4 *Additional options for entities that are part of a group*.

The core UK and Ireland GAAP regimes

2.7 As shown in Diagram 2, 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.

Diagram 2



2.8 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.
- When 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 others.

2.9 The following tables outline the key eligibility criteria for the micro-entities and small entities regimes in the UK and Ireland. 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**	**Small entities regime**
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 • Limited liability partnerships[1] • Qualifying partnerships that would have met the definition of a micro-entity had they been a company incorporated under company law[2]	• Companies • Limited liability partnerships[1] • 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
Size criteria	The qualifying conditions are met by an entity in a year in which it does not exceed two or more of the following criteria: • Turnover £632,000 • Balance sheet total £316,000 • Average no. of employees 10	The qualifying conditions are met by an entity in a year in which it does not exceed two or more of the following criteria: • Turnover £10.2m • Balance sheet total £5.1m • Average no. of employees 50
Ineligible entities	• Any companies excluded from the small companies regime • Financial institutions including credit and insurance institutions • Charities • Parent companies that prepare group accounts or head up a group that does not qualify as a small group • Companies that are not parent companies but their accounts are included in group accounts	• Public companies • Financial institutions including insurance companies and banking companies

1 As set out in *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911).
2 As set out in *The Partnerships (Accounts) Regulations 2008* (SI 2008/569).

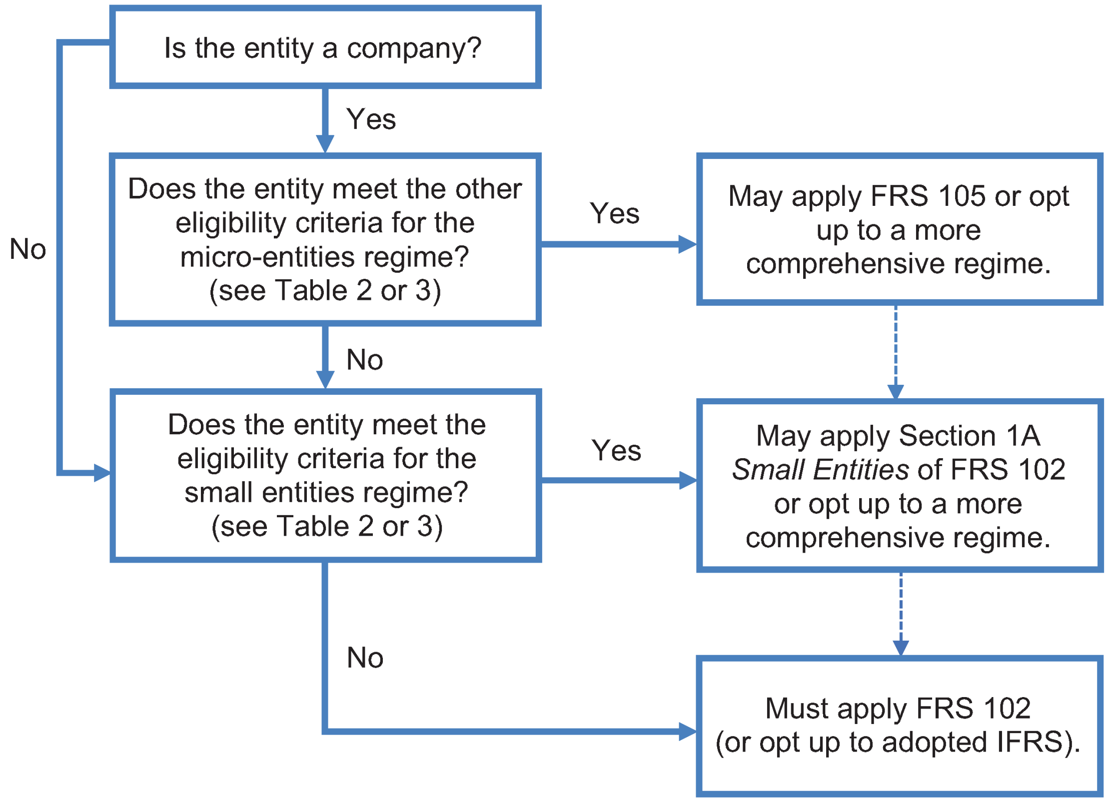
Table 3: Irish eligibility criteria		
Regime	**Micro-entities regime**	**Small entities regime**
Source of eligibility criteria	Section 280D of the Companies Act 2014	Sections 280A and 280B of the Companies Act 2014
Eligible entities	• Companies • Qualifying partnerships[3] • Charities	• Companies • Qualifying partnerships[3] • 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
Size criteria	The qualifying conditions are met by an entity in a year in which it does not exceed two or more of the following criteria: • Turnover €700,000 • Balance sheet total €350,000 • Average no. of employees 10	The qualifying conditions are met by an entity in a year in which it does not exceed two or more of the following criteria: • Turnover €12m • Balance sheet total €6m • Average no. of employees 50
Ineligible entities	• Any companies excluded from the small companies regime • Investment undertakings • Financial holding undertakings • Parent companies that prepare group accounts • Subsidiaries that are included in group accounts	• Entities that have transferable securities admitted to trading on a regulated market of any EEA Member State • Undertakings set out in Schedule 5 to the Companies Act 2014 • Credit institutions • Insurance undertakings • Public interest entities[4]

3 Qualifying partnerships are required to apply Part 6 of the *Companies Act 2014* in accordance with the *European Union (Qualifying Partnerships: Accounting and Auditing) Regulations 2019* (SI No. 597 of 2019).

4 As designated in Ireland or in another EEA Member State.

2.10 The following decision tree will help an entity identify the options that may be open to it in selecting its reporting regime:

Diagram 3



3 Key features of the core UK and Ireland GAAP regimes

FRS 102

3.1 FRS 102 was first issued in March 2013 and effective for accounting periods beginning on or after 1 January 2015. Subsequent amendments have revised it in response to changes in company law and stakeholder feedback, and after considering improvements in financial reporting. For convenience, a revised edition of FRS 102 will be published periodically to incorporate any recent amendments, usually after any significant amendments have been issued.

3.2 FRS 102 is one succinct standard of 300–400 pages, and is an IFRS-based standard. It is designed to apply to general purpose financial statements and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented. General purpose financial statements are intended to focus on the common information needs of a wide range of users: shareholders, lenders, other creditors, employees and members of the public, for example.

The micro-entities regime (FRS 105)

3.3 Micro-entities are the smallest of entities and are a subset of small entities. The accounting standard for micro-entities, FRS 105, has been developed around the legal framework and simplifies the requirements of FRS 102 for this group of entities.

3.4 Although FRS 105 is the least complex standard, every entity that is eligible to apply it should consider whether the micro-entities regime meets its individual needs. It is important to remember that the regime is optional even if an entity meets the eligibility criteria.

3.5 The micro-entities regime requires limited disclosures and constrains the accounting policies that can be applied:

- The only primary statements required are a balance sheet and profit and loss account. There is no requirement to prepare a statement of cash flows, a statement of comprehensive income or a statement of changes in equity. Further, the information presented in the balance sheet and profit and loss account is condensed (for example 'fixed assets' is not disaggregated into tangible fixed assets, intangible assets, investment properties etc).
- No assets can be measured at fair value or a revalued amount. This means that land and buildings and investment properties can only be measured at cost and previous revaluation gains would need to be removed on transition.
- The accounts of micro-entities in the UK[5] are **only** required to disclose information about:
  - Off-balance sheet arrangements;
  - Employee numbers;
  - Advances, credits and guarantees granted to directors; and
  - Financial commitments, guarantees and contingencies not included in the balance sheet, including any valuable security given in respect of these.

  However, micro-entities may voluntarily choose to disclose more information.

[5] The minimum disclosure requirements applicable to micro-entities in the Republic of Ireland can be found in Appendix B to Section 6 *Notes to the Financial Statements* of FRS 105.

- Micro-entities' accounts that comply with the minimal legal requirements are presumed in law to give a true and fair view. Therefore, there is no requirement for directors to consider what additional information may be needed in order for the accounts to give a true and fair view.

3.6 In addition to these legal constraints, FRS 105 is simplified further, for example:

- deferred tax and equity-settled share-based payments shall not be recognised; and
- all accounting policy choices have been removed, including the options to capitalise development costs and borrowing costs.

More detailed discussion of the additional simplifications can be found in FRS 105.

3.7 Appendix I to this document sets out the key features of FRS 105.

The small entities regime (Section 1A *Small Entities* of FRS 102)

3.8 Similarly to FRS 105, Section 1A *Small Entities* of FRS 102 has been developed around the legal framework and from the requirements of FRS 102 for this group of entities.

3.9 The requirements of the small entities regime are more comprehensive than those of the micro-entities regime and the recognition and measurement requirements of Section 1A are generally the same as those set out in the rest of FRS 102. In relation to recognition and measurement, key differences between the small entities regime and the micro-entities regime include the use of fair value and revaluation accounting and the additional accounting requirements in respect of derivatives, deferred tax and equity-settled share-based payments.

3.10 The law only mandates a limited number of specified disclosures. However, unlike the micro-entities regime, directors of small entities are legally obligated to prepare accounts that give a true and fair view whereas micro-entity accounts are automatically presumed in law to give a true and fair view if the legal minimum is adhered to. 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 give a true and fair view. Section 1A of FRS 102 provides additional guidance to assist directors.

3.11 Appendix II to this document sets out the key features of Section 1A of FRS 102.

4 Additional options for entities that are part of a group

4.1 For entities that are part of a group and included in the consolidated financial statements (known as qualifying entities), the UK and Ireland GAAP framework provides two additional reporting regimes. Both regimes aim to make group reporting more efficient and cost-effective by permitting consistent accounting policies to be applied across a group, but with reduced disclosures.

Table 4: Eligibility criteria

Regime	**Reduced disclosures for subsidiaries and ultimate parents (FRS 102)**	**Reduced disclosure framework (FRS 101)**
Source of eligibility criteria	Definition of a qualifying entity as set out in the glossary to FRS 102.	Definition of a qualifying entity as set out in the glossary to FRS 101.
Eligible entities	A member of a group: • where the parent prepares publicly available consolidated financial statements which are intended to give a true and fair view; and • that is included in the consolidation.	A member of a group: • where the parent prepares publicly available consolidated financial statements which are intended to give a true and fair view; and • that is included in the consolidation.
Size thresholds	None	None
Ineligible entities	None	• Charities • From accounting periods beginning on or after 1 January 2023; entities that are both required to apply Schedule 3 to the Regulations[6] (or similar) and have contracts that are within the scope of IFRS 17 *Insurance Contracts*

4.2 Each regime is based on a different underlying reporting framework:

- FRS 101 *Reduced Disclosure Framework* is based on adopted IFRS; whereas
- the reduced disclosures for subsidiaries and ultimate parents in FRS 102 are based on FRS 102.

4.3 In essence, entities applying either reduced disclosure regime are required to otherwise apply the underlying requirements of the related standard (ie adopted IFRS or FRS 102) but are permitted to take advantage of certain disclosure exemptions.

4.4 Both reduced disclosure regimes are optional.

[6] *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410). Irish entities shall refer to the *European Union (Insurance Undertakings: Financial Statements) Regulations 2015* (SI No. 262 of 2015), as amended by the *European Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016* (SI No. 213 of 2016).

Appendix I
Key features of FRS 105

Table 5: 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 in law 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.
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 cash flows, a statement of comprehensive income or a statement of changes in equity.
Significantly condensed formats of statements	The statutory formats for the balance sheet and profit and loss account 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 limited disclosures, but can voluntarily provide more.
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.
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.
No consolidated financial statements	FRS 105 does not contain accounting requirements that cover the preparation of consolidated financial statements as the micro-entities regime is not available to entities that are required or choose to prepare group accounts.
Terminology used consistent with FRS 102	FRS 105 uses terminology consistent with FRS 102 rather than company law, (eg 'statement of financial position' instead of 'balance sheet'). A table of equivalence is included in Appendix II to FRS 105.

Appendix II
Key features of Section 1A Small Entities of FRS 102

Table 6: Key features of Section 1A of FRS 102	
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.
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 cash flows, a statement of comprehensive income or a statement of changes in equity.
Formats of statements	Small entities may choose to adapt the statutory formats for the balance sheet and profit and loss account. Section 1A of FRS 102 sets out a framework for the information to be presented by those entities choosing to adapt the formats, which includes adopting a presentation closer to IFRS and using terminology consistent with FRS 102. UK small entities also have the option to prepare abridged financial statements, subject to certain conditions and exclusions.
Measurement and recognition requirements consistent with FRS 102	Small entities generally follow the same recognition and measurement requirements of FRS 102 that apply to all other entities within the scope of the standard. Therefore, certain assets and liabilities are required to be revalued or measured at fair value, instead of being held at cost. Small entities are also required to account for derivatives, deferred tax and equity-settled share-based payments.
Accounting for directors' loans	Small entities are permitted to apply simpler accounting for directors' loans. This departs from the general approach of all entities within the scope of FRS 102 following the same recognition and measurement requirements in order to provide a proportionate and practical solution.
Accounting policy choices	FRS 102 includes accounting policy options, which requires small entities to make accounting policy choices. For example, development costs and borrowing costs may be capitalised or expensed.
Not all company law reporting requirements are reproduced	Section 1A of FRS 102 does not reproduce all the reporting requirements from company law applicable to small entities (eg the directors' report), 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 rather than company law (eg 'statement of financial position' instead of 'balance sheet'). A table of equivalence is included in Appendix II to FRS 102.

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