



December 2013

FRED 52

Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)

Micro-entities

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Introduction

- (i) In November 2013 *The Small Companies (Micro-Entities' Accounts) Regulations 2013* (SI 2013/3008) (the Micro-Entities' Accounts Regulations) were made to bring in to UK law the provisions of the EU Directive on the annual accounts of certain types of companies as regards micro-entities¹. The Micro-Entities' Accounts Regulations are effective in respect of financial years ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013.
- (ii) The Micro-Entities' Accounts Regulations permit micro-entities to take certain exemptions relating to the preparation of their financial statements, meaning that without amending the Financial Reporting Standard for Smaller Entities (effective April 2008) (FRSSE) a micro-entity could not state compliance with the FRSSE whilst taking advantage of the available exemptions. However, this does not restrict a micro-entity's ability to take advantage of the new legal exemptions from their effective date.
- (iii) Therefore the FRC is proposing these draft amendments to the FRSSE to allow those micro-entities taking advantage of the exemptions available in law to continue to prepare financial statements in compliance with the FRSSE.
- (iv) Consistently with the Micro-Entities' Accounts Regulations the draft amendments relate to the presentation and disclosure in the financial statements of micro-entities. These proposals do not affect the recognition or measurement of amounts included in the financial statements of micro-entities.
- (v) To take advantage of the legal exemptions a micro-entity must meet certain qualifying conditions based on size, and must not be excluded from being treated as a micro-entity. Companies excluded from being treated as micro-entities include those excluded from the small companies regime, charities, those voluntarily preparing group accounts and those included in group accounts.
- (vi) The proposed amendments only relate to companies and are not applicable to other entities applying the FRSSE.

¹ Directive 2012/6/EU of the European Parliament and of the Council.

Invitation to comment

1. The FRC is requesting comments on FRED 52 by 12 February 2014. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the question below.

Question 1

Do you agree with the proposed amendments to the FRSSE for micro-entities? If not, why not?

2. Information on how to submit comments and the FRC's policy in relation to responses is set out on page 12.

[Draft] Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)

Micro-entities

1 The following paragraphs set out the [draft] amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) (deleted text is struck through, inserted text is underlined).

2 Paragraph 1.2 is inserted as follows:

“A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act**:

- (a) shall disregard all presentation and disclosure requirements of the FRSSE (including those relating to the formats for the balance sheet and profit and loss account), except those set out in paragraphs 2.40 to 2.42, which are only applicable to micro-entities. However, where a micro-entity chooses to provide INFORMATION ADDITIONAL TO THE MICRO-ENTITY MINIMUM ACCOUNTING ITEMS, IT SHALL HAVE REGARD TO the requirements of the FRSSE RELATING TO THAT ITEM.
- (b) shall not choose to adopt an accounting policy of revaluation in respect of **tangible fixed assets**, which would otherwise be permitted by paragraph 6.23.
- (c) shall not choose to measure fixed asset investments at a market value, which would otherwise be permitted by paragraph 6.30.
- (d) shall account for any **investment properties** in accordance with paragraphs 6.19 to 6.26 rather than paragraphs 6.50 to 6.53.”

3 Paragraph 2.2A is inserted as follows:

“For a **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act**:

- (a) THE MICRO-ENTITY MINIMUM ACCOUNTING ITEMS ARE PRESUMED TO GIVE A TRUE AND FAIR VIEW; and
- (b) paragraphs 2.3 to 2.5 and 2.18 do not apply.”

4 The sub-heading and paragraphs 2.40 to 2.42 are inserted as follows:

“*Financial statements of a micro-entity*

2.40 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare a balance sheet showing only those items listed in the following formats, where applicable:

BALANCE SHEET FORMAT 1

A CALLED UP SHARE CAPITAL NOT PAID

B FIXED ASSETS

C CURRENT ASSETS

D PREPAYMENTS AND ACCRUED INCOME

E CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

F NET CURRENT ASSETS (LIABILITIES)

G TOTAL ASSETS LESS CURRENT LIABILITIES

H CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

I PROVISIONS FOR LIABILITIES

J ACCRUALS AND DEFERRED INCOME

K CAPITAL AND RESERVES

BALANCE SHEET FORMAT 2

ASSETS

- A CALLED UP SHARE CAPITAL NOT PAID
- B FIXED ASSETS
- C CURRENT ASSETS
- D PREPAYMENTS AND ACCRUED INCOME

LIABILITIES

- A CAPITAL AND RESERVES
- B PROVISIONS FOR LIABILITIES
- C CREDITORS*
- D ACCRUALS AND DEFERRED INCOME”

[Footnote]

“* AGGREGATE AMOUNTS FALLING DUE WITHIN ONE YEAR AND AFTER ONE YEAR MUST BE SHOWN SEPARATELY.”

THE BALANCE SHEET MUST CONTAIN, IN A PROMINENT POSITION ABOVE THE SIGNATURE, A STATEMENT THAT THE ACCOUNTS ARE PREPARED IN ACCORDANCE WITH THE MICRO-ENTITY PROVISIONS.

- 2.41 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare a profit and loss account showing only the following items, where applicable:

- A TURNOVER
- B OTHER INCOME
- C COST OF RAW MATERIALS AND CONSUMABLES
- D STAFF COSTS
- E DEPRECIATION AND OTHER AMOUNTS WRITTEN OFF ASSETS
- F OTHER CHARGES
- G TAX
- H PROFIT OR LOSS

- 2.42 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare notes to the financial statements, to be disclosed at the foot of the balance sheet, providing disclosure of:

- (a) guarantees and other financial commitments, as follows:

- (i) for any CONTINGENT LIABILITY NOT PROVIDED FOR, THE AMOUNT OR ESTIMATED AMOUNT OF THAT LIABILITY;
- (ii) in accordance with paragraphs 10.2, 11.8(c) and 11.9 to 11.11; and
- (iii) where any commitments disclosed in accordance with (i) and (ii) above are UNDERTAKEN ON BEHALF OF OR FOR THE BENEFIT OF (A) ANY PARENT UNDERTAKING OR FELLOW SUBSIDIARY UNDERTAKING, OR (B) ANY SUBSIDIARY UNDERTAKING OF THE ENTITY, IT MUST BE STATED SEPARATELY FROM THE OTHER COMMITMENTS. COMMITMENTS WITHIN PARAGRAPH (A) MUST ALSO BE STATED SEPARATELY FROM THOSE WITHIN PARAGRAPH (B).

- (b) directors' benefits: advances, credits and guarantees in accordance with paragraphs 15.11 to 15.15.”

- 5 Paragraph 6.18 is amended as follows:

“Except as set out in paragraph 1.2, paragraphs Paragraphs ...”

6 Paragraph 19.1 is amended as follows:

“Except as set out in paragraph 19.1A, the ~~The~~ ...”

7 Paragraph 19.1A is inserted as follows:

“The accounting practices for **micro-entities** set out in paragraphs 1.2, 2.2A and 2.40 to 2.42 of this Financial Reporting Standard for Smaller Entities (effective April 2008) shall be regarded as standard in respect of the financial statements of **micro-entities** relating to accounting periods ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013. Earlier application is not permitted.”

8 In Part C *Definitions* the following definitions are inserted as follows:

“Act:-

The Companies Act 2006”

“Micro-entity:-

As defined in the **Act**. A company which on its balance sheet date does not exceed the limits of two of the three following criteria:

- (a) turnover: £632,000;
- (b) balance sheet total: £316,000; and
- (c) average number of employees during the financial year: 10.”

“Micro-entity minimum accounting items:-

The items of information required by the **Act** or regulations to be contained in the individual accounts of a company which qualifies as a micro-entity.”

9 In Appendix I *Note on legal requirements for companies* the sub-heading and paragraphs 13 to 15 are inserted as follows:

“**Micro-entities**

13 The *Small Companies (Micro-Entities’ Accounts) Regulations 2013* (the *Micro-Entities’ Accounts Regulations*) were made in November 2013 and apply to the financial statements of micro-entities for accounting periods ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013.

14 The definition of a micro-entity is contained in sections 384A and 384B of the Companies Act 2006. The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

<u>Turnover</u>	<u>£632,000</u>
<u>Balance sheet total</u>	<u>£316,000</u>
<u>Number of employees</u>	<u>10</u>

A company will cease to qualify as a micro-entity if it fails to meet the qualifying conditions for two consecutive years. Certain companies are excluded by section 384B from being treated as micro-entities, including those excluded from the small companies regime for reasons of public interest, charities, those voluntarily preparing group accounts and those included in group accounts.

15 Micro-entities preparing financial statements comprising of only the micro-entity minimum accounting items shall apply the specific paragraphs of the FRSSE applicable to micro-entities. This will allow micro-entities to take advantage of the reduced presentation and disclosure requirements whilst complying with the generally accepted recognition and measurement requirements of the FRSSE.

Similar legislation is not currently applicable in the Republic of Ireland.”

10 In Appendix IV *Development of the FRSSE* paragraph 37D is inserted as follows:

“In [month 2014] the FRC issued [draft] *Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities*. The amendments made to the FRSSE reflect the impact of the Small Companies (Micro-Entities’ Accounts) Regulations 2013. As a result micro-entities will be able to prepare micro-entity accounts.”

The Accounting Council's Advice to the FRC to issue FRED 52: Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities

Introduction

- 1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRED 52 *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities*.
- 2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is the prescribed body for issuing accounting standards in the UK. The Foreword to Accounting Standards sets out the application of accounting standards in the Republic of Ireland.
- 3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:
 - it is apparent that a significant group of stakeholders has not been adequately consulted;
 - the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;
 - insufficient consideration has been given to the timing or cost of implementation; or
 - the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.
- 4 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 5 The Accounting Council is advising the FRC to issue FRED 52 *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities*.

Background

- 6 The *Small Companies (Micro-Entities' Accounts) Regulations 2013* (SI 2013/3008) (the Micro-Entities' Accounts Regulations) were made in November 2013 and apply to the financial statements of micro-entities for accounting periods ending on or after 30 September 2013, for companies filing their accounts on or after 1 December 2013. Micro-entities are a sub-set of small companies.
- 7 Unless an amendment was made to the FRSSE to reflect the new legal provisions a micro-entity taking advantage of those legal provisions would not be able to comply with the remaining, relevant provisions of the FRSSE. Therefore the Accounting Council advises that amendments are made to the FRSSE accordingly.
- 8 The Accounting Council advises that micro-entities preparing financial statements comprising of only the micro-entity minimum accounting items shall apply the specific paragraphs of the FRSSE applicable to micro-entities. This will allow micro-entities to take advantage of the reduced presentation and disclosure requirements whilst complying with the generally accepted recognition and measurement requirements of the FRSSE.

- 9 The Accounting Council notes that this amendment only relates to UK companies that are micro-entities. If similar legislation is introduced in the Republic of Ireland (derived from Directive 2012/6/EU of the European Parliament and of the Council) the FRSSE will be further updated. If this occurs before the draft amendments are issued as standard, the scope of the amendments may be widened to include micro-entities in the Republic of Ireland.

Future developments

- 10 The Accounting Council expects that when Directive 2013/34/EU of the European Parliament and of the Council is brought into UK and Republic of Ireland legislation it will comprehensively revise the FRSSE. At that time it will reconsider how best to present the accounting standard requirements for micro-entities, which may include issuing an accounting standard for micro-entities separately from the accounting standard applied by other small entities.

Consultation Stage Impact Assessment

Introduction

- 1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.
- 2 The draft amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) (FRSSE) contained in this FRED are proposed in order that the FRSSE remains consistent with legislation. The Department for Business, Innovation and Skills (BIS) has prepared an impact assessment for the legislation and hence no further impact assessment has been prepared by the FRC.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

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Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Comments should be despatched so as to be received no later than 12 February 2014.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.



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