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12 February 2014

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Dear Jenny

**FRED 52 Draft Amendment to the Financial Reporting Standard for Smaller Entities (effective April 2008) Micro-entities**

We are pleased to have the opportunity to comment on FRED 52. We agree that the Financial Reporting Standard for Smaller Entities (effective April 2008) ("FRSSE") should be amended so that micro-entities that take advantage of the exemptions available under the Micro-Entities' Accounts Regulations can continue to prepare financial statements in compliance with the FRSSE.

However we believe that the amendments could be improved to include transitional guidance for entities that previously adopted the alternative accounting rules or fair value rules and are now precluded from doing so if they take advantage of the micro-entity exemptions and also to give better details on the legal definition of a micro-entity so as to maintain the FRSSE as a "one stop shop".

Our responses to the questions asked are set out below.

**Question 1**

*Do you agree with the proposed amendments to the FRSSE for micro-entities?*

*If not, why not?*

Yes, subject to comments below.

**Use of alternative accounting rules or fair value rules**

Micro-entities are precluded from using the alternative accounting rules or the fair value rules if they avail themselves of the exemptions. We believe transitional guidance should be given for those companies that previously used one or more of these bases and choose to take the micro-entity exemptions.

The proposed paragraph 1.2(b) prohibits an accounting policy of revaluation for tangible fixed assets by disapplying 6.23. We question whether this should refer to 6.23 to 6.29? To some extent this will depend on the transitional guidance requested above.

The proposed 1.2(d) instructs a micro-entity to account for investment property in accordance with 6.19 to 6.26. We believe this should refer to 6.19 to 6.22.

**Legal requirements relating to the micro-entity exemption**

The definition of a micro entity (paragraph 8) only addresses the size criteria. It implies that a micro-entity needs to meet the size criteria at the balance sheet date when in practice there is a one year grace period as referred to in the proposed paragraph 14 to Appendix 1 of the FRSSE



(paragraph 9). We suggest the definition in paragraph 8 is restricted to “Micro-entities as defined by the Act (see Appendix 1)” and the expansion of the Appendix 1 note on the legal requirements to qualify as a micro entity to an equivalent level to that currently set out in Appendix 1 in respect of small companies. This would maintain the FRSE as a “one stop shop”.

The proposed addition to Appendix 1 (paragraph 9) makes no mention of the disapplication of the exemption from certain types of entity such as LLPs and unregistered companies (Regulation 3).

The proposed paragraph 14 to Appendix 1 should refer to “those voluntarily preparing group accounts and those included in consolidated group accounts” to be consistent with the Regulations.

#### Changes to wording

Paragraph 2, 1.2(a) should refer to “an item of” to be consistent with the wording in regulation 5. I.e. “However, where a micro-entity chooses to provide AN ITEM OF INFORMATION ADDITIONAL TO THE MICRO - ENTITY MINIMUM ACCOUNTING ITEMS, IT SHALL HAVE REGARD TO the requirements of the FRSE RELATING TO THAT ITEM.”

In paragraph 3, add the text “that comprise only micro-entity minimum accounting items” to be consistent with the wording in the regulation 5. I.e. “For a micro-entity preparing its financial statements in accordance with section 393(1A) of the Act that comprise only MICRO - ENTITY MINIMUM ACCOUNTING ITEMS:”

As noted in the introduction to the FRED the purpose is “to allow those micro-entities taking advantage of the exemptions available in law to continue to prepare financial statements in compliance with the FRSE”. We believe that the proposed paragraph 37D to Appendix IV should reflect this wording “As a result micro-entities will be able to prepare micro-entity accounts in compliance with the FRSE.”

We would be very happy to discuss our response to this consultation with you should you require. Please contact Nicole Kissun (on 020 7893 2980 or at [nicole.kissun@bdo.co.uk](mailto:nicole.kissun@bdo.co.uk)) should this be the case.

Yours sincerely



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For and on behalf of BDO LLP