

AMENDMENT TO  
FINANCIAL REPORTING STANDARD  
FOR SMALLER ENTITIES  
2006



ACCOUNTING  
STANDARDS  
BOARD

AMENDMENT TO FRSSSE  
EXPOSURE DRAFT

*For the convenience of respondents in compiling their responses, the text of the questions in the Invitation to Comment (see pages 11 and 12) can be downloaded (in Word format) from the 'FRSSE' page in the current projects section of the ASB Website ([www.frc.org.uk/asb](http://www.frc.org.uk/asb))*

*For ease of handling, we prefer comments to be sent by e-mail (in Word Format) to:  
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*Comments should reach us by 31 July 2006. All replies will be regarded as on the public record unless the writer asks for confidentiality. If you are sending a confidential response by e-mail, please include the word 'confidential' in the subject line of your e-mail.*

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# **C O N T E N T S**

	<i>Pages</i>
<b>PREFACE</b>	<b>3-12</b>
<b>PROPOSED AMENDMENTS TO THE STATEMENT OF STANDARD ACCOUNTING PRACTICE AND DEFINITIONS</b>	<b>13-20</b>
<i>Corresponding amounts (FRS 28)</i>	<b>13</b>
<i>UITF Abstract 40: Revenue recognition and service contracts</i>	<b>14-15</b>
<i>(IFRS 2) Share-based payment (FRS 20)</i>	<b>15-17</b>
<i>Amendments arising from changes in Company Law</i>	<b>17</b>
<i>Presentational changes</i>	<b>18-19</b>
<i>Date from which effective</i>	<b>20</b>
<b>PROPOSED AMENDMENT TO THE STATUS OF THE FRSSSE</b>	<b>21</b>
<b>PROPOSED NEW APPENDIX III ON SHARE-BASED PAYMENT TRANSACTIONS</b>	<b>22-23</b>
<b>PROPOSED REMOVAL OF APPENDICES V TO VII - DERIVATION TABLES</b>	<b>24</b>
<b>APPENDICES</b>	<b>25-49</b>
<b>I THE DEVELOPMENT OF THE EXPOSURE DRAFT</b>	<b>25-34</b>

<b>II PROPOSED AMENDMENTS TO APPENDIX I – NOTE ON LEGAL REQUIREMENTS FOR COMPANIES</b>	<b>35-36</b>
<b>III PROPOSED AMENDMENTS TO APPENDIX III – ILLUSTRATIVE EXAMPLES AND PRACTICAL CONSIDERATIONS</b>	<b>37-39</b>
<b>IV DERIVATION TABLES IN RESPECT OF ACCOUNTING STANDARDS FOR PROPOSED AMENDMENTS TO THE FRSSE</b>	<b>40-41</b>
<b>V DERIVATION TABLES IN RESPECT OF SIMPLIFICATIONS FOR PROPOSED AMENDMENTS TO THE FRSS</b>	<b>42-45</b>
<b>VI DERIVATION TABLES IN RESPECT OF LEGISLATION FOR PROPOSED AMENDMENTS TO THE FRSS</b>	<b>46-49</b>

## **PREFACE**

### ***Introduction***

- 1 The Financial Reporting Standard for Smaller Entities (FRSSE) was originally issued in November 1997 and revised versions were issued in December 1998, December 1999, December 2001 and April 2005. This Exposure Draft is expected to lead to the fifth periodic revision of the FRSSE, which presents in one document and in simplified form the accounting requirements that are relevant to smaller entities.
- 2 The FRSSE may be adopted by companies that qualify as small under companies legislation in the UK and the Republic of Ireland and by analogous bodies (ie generally those entities with an annual turnover of less than £5.6 million\*). Those smaller entities choosing to comply with the FRSSE are then exempt from applying all other accounting standards and UITF Abstracts. However, smaller entities that do not adopt the FRSSE remain subject to the full range of accounting standards and UITF Abstracts.
- 3 The title of the revised FRSSE will, as normal, include the date from which it is effective, to avoid confusion with previous versions, ie 'Financial Reporting Standard for Smaller Entities (effective Month/Year)'. At this stage it is envisaged that the revised FRSSE will be effective for accounting periods beginning on or after 1 January 2007. However, since the effective date is not yet certain, and for the sake of simplicity in the text that follows, it is referred to in this document as the [draft] FRSSE [2006].

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\* In the Republic of Ireland the turnover limit is €3.81million

***Proposed revisions to the FRSSE***

- 4 In developing this Exposure Draft, the Board was advised by its specialist Committee on Accounting for Smaller Entities (CASE). The Board and CASE considered all new FRSs (since FRS 21 which was considered as part of the 2005 amendment), amendments to FRSs and UITF Abstracts that have been issued since the last Exposure Draft of amendments to the FRSSE was published. These are listed in the table below. The Board and CASE also considered further the impact of FRS 20 (Share-based payment) which was not addressed in FRSSE 2005 and changes to companies legislation taking effect since 1 January 2005.

<i>New FRSs, amendments to FRSs and UITF abstracts</i>	<i>Title</i>	<i>Issued</i>
Amendment to FRS 2	Accounting for subsidiary undertakings	December 2004
FRS 22	(IAS 33) Earnings per share	December 2004
FRS 23	(IAS 21) The effects of changes in foreign exchange rates	December 2004
FRS 24	(IAS 29) Financial reporting in hyperinflationary economies	December 2004
FRS 25	(IAS 32) Financial Instruments: disclosure and presentation	December 2004
FRS 26	(IAS 39) Financial Instruments: measurement	December 2004
FRS 27	Life Assurance	December 2004

<i>New FRSs, amendments to FRSs and UITF abstracts</i>	<i>Title</i>	<i>Issued</i>
Amendment to FRS 26	(IAS 39) Financial Instruments: measurement – various amendments	October 2005
FRS 28	Corresponding amounts	October 2005
FRS 29	(IFRS 7) Financial Instruments: disclosures	December 2005
Amendment to FRS 23	(IAS 21) The effects of changes in foreign exchange rates – net investment in a foreign operation	December 2005
UITF Abstract 39	(IFRIC interpretation 2) Members shares in cooperative entities and similar instruments	February 2005
UITF Abstract 40	Revenue recognition and service contracts	March 2005

- 5 The proposed amendments to the FRSSE contained in this Exposure Draft aim to incorporate the relevant aspects of the above FRSs, amendments to FRSs and UITF Abstracts, as well as addressing FRS 20 and the impact of changes to company law, modified and simplified where appropriate for smaller entities. These amendments are outlined below with greater detail and explanation provided in Appendix I ‘The development of the Exposure Draft’. In addition, Appendices IV to VI contain derivation information summarising the accounting and legal sources of the proposed revised paragraphs in the FRSSE and a list of the simplifications that are proposed in the Exposure Draft as compared with the above FRSs and UITF Abstracts.

*Amendment to FRS 2 'Accounting for subsidiary undertakings'*

- 6 The Amendment reflects changes in company law\* amending the scope of the application of the standard and certain definitions. FRS 2 is not addressed by the FRSSE as reference should be made to the full standard when preparing group accounts. It is therefore proposed not to reflect the Amendment in the FRSSE.

*FRS 22 '(IAS 33) Earnings per share'*

- 7 This standard replaces FRS 14 *Earnings per Share* (for accounting periods beginning 1 January 2005) as part of the Board's convergence programme with international accounting standards. FRS 14 was not addressed by the FRSSE as few small companies report earnings per share and consequently it is proposed that FRS 22 should not be addressed by the FRSSE.

*FRS 23 '(IAS 21) The effects of changes in foreign exchange rates'*

*FRS 24 '(IAS 29) Financial reporting in hyperinflationary economies'*

*FRS 26 '(IAS 39) Financial Instruments: measurement'*

*Amendment to FRS 26 '(IAS 39) Financial Instruments: measurement'*

*Amendment to FRS 23 '(IAS 21) The effects of changes in foreign exchange rates'*

- 8 These standards were introduced together as a package as part of the Board's convergence programme with international accounting standards. They currently apply to listed entities or entities using the fair value

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\* Introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

accounting rules set out in the 1985 Companies Act. The amendments have been issued to track changes made to the underlying international accounting standards. The Board is considering whether to extend the scope of the standards to all entities (except those using the FRSSE). Consequently it is proposed that, at this stage, the FRSSE should not reflect these standards.

*FRS 25 (IAS 32) Financial Instruments: disclosure and presentation*

- 9 FRS 25 sets out requirements for the presentation of financial liabilities and equity; compound financial instruments; treasury shares; interest, dividends, losses and gains; and, offsetting financial assets and financial liabilities. These requirements apply to all entities except those applying the FRSSE.
- 10 The basic presentation requirements of FRS 25 are already reflected in the FRSSE (effective January 2005) to maintain consistency with underpinning legal requirements. Since few smaller entities will encounter the transactions it is not proposed to make any further changes to the FRSSE. Comments are however being invited on whether further guidance might be provided in an Appendix, particularly in terms of the classification of capital instruments between debt and equity.
- 11 The disclosure requirements set out in FRS 25 apply only to those entities adopting FRS 26. It is not proposed to amend the FRSSE at this stage.

*FRS 27 Life Assurance*

- 12 Entities undertaking insurance market activities are not permitted to adopt the FRSSE and so it is proposed that this standard should not be reflected in the FRSSE.

*FRS 28 'Corresponding amounts'*

- 13 As a consequence of amendments\* to the Companies Act 1985 it falls to accounting standards to prescribe whether corresponding amounts should be restated and whether corresponding amounts should be provided for amounts disclosed in the notes to the financial statements. FRS 28 now sets out these requirements which require consequential amendments to the FRSSE. The amendments are reproduced in this Exposure Draft for information.

*FRS 29 (IFRS 7) Financial Instruments: disclosure'*

- 14 This standard adopts IFRS 7 as part of the Board's convergence programme with international accounting standards, replacing the disclosure requirements set out in FRS 25 and must be applied by those entities applying FRS 26. Since it is proposed not to amend the FRSSE for FRS 26 at this stage, it is proposed not to address FRS 29.

*UITF Abstracts*

- 15 It is not proposed that UITF Abstract 39 should be reflected in the FRSSE.
- 16 The consensus paragraphs of UITF Abstract 40 *Revenue recognition on service contracts* are currently reproduced in Appendix III 'Illustrative examples and practical considerations' of FRSSE 2005 and are intended to assist smaller entities in recognising revenue and reporting long-term contracts and to illustrate application of the principles included in section 4 of the FRSSE. This presentation was also considered to be appropriate because UITF Abstract 40 was issued after

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\* *Companies Act 1985 (Investment Companies and Accounting and Audit Amendments) Regulations 2005.*

consultation on the Exposure Draft for the amendment to FRSSE 2005. The Board is now proposing to move the consensus paragraphs from UITF Abstract 40 to section 4 of the FRSSE covering revenue recognition, thereby avoiding any doubt as to the applicability of UITF Abstract 40 to smaller entities adopting the FRSSE.

*FRS 20 ‘(IFRS 2) Share-based Payment’*

- 17 FRS 20 was issued in April 2004 and applies to accounting periods beginning 1 January 2006 for unlisted entities not adopting the FRSSE. It requires the recognition of share-based payment transactions and the associated assets, liabilities and expenses. The Board is aware that there is some use of share-based payment by small companies and, in developing the FRSSE (effective 2005), noted its intention to consult on introducing requirements for share-based payment in a future update.
- 18 The Board now proposes to reflect the key principles from FRS 20 in the FRSSE on the grounds that where share-based payment transactions are undertaken by smaller entities the requirements of FRS 20 should be adopted. The proposed amendment involves inserting a short paragraph at 12.13 with a cross reference to a more detailed appendix setting out the main requirements.
- 19 The Board recognise that its proposal to apply the key elements of FRS 20 in the FRSSE, with no simplifications, is a contentious issue. It is therefore specifically asking for views as part of the consultation process for this proposed amendment to the FRSSE. An alternative approach may be for the FRSSE to provide simplified rules on cash settled arrangements and require only disclosures of equity settled share-based payments.

*Recent changes in company law*

- 20 The FRSSE (effective 2005) reflects GB company law effective on 1 January 2005. Since this date a number of

additional and amended requirements have come into force as a result of delayed implementation dates for existing Statutory Instruments and new legislation. This Exposure Draft proposes amendments to reflect these additions and changes to company law where relevant.

### ***Scope of the FRSSE***

- 21 It is proposed that the Status section of the FRSSE is amended to preclude its use by smaller entities wishing to adopt the fair value accounting rules in Section D of Schedule 8 of the Companies Act 1985. This will significantly reduce both the legal and accounting requirements that would otherwise need to be reflected in the FRSSE.

### ***Presentational changes***

- 22 The Company Law requirements relevant to the preparation of small company accounts were reflected for the first time in the FRSSE (effective 2005). In reflecting these requirements there is, in a few places, some internal inconsistency. This Exposure Draft therefore proposes that in these cases some of the legal requirements reflected in the FRSSE should be clarified. It is also proposed to remove the derivation information in Appendices V to VII to make the published FRSSE more manageable and to cut almost 100 pages, although this information would be freely available from the ASB website.

### ***Company Law Reform Bill***

- 23 The Company Law Reform Bill\* is the culmination of the Company Law Review began in 1998. The Bill proposes to amend and codify many of the provisions of

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\* The full text of the Bill, published on 1 November 2005, is available on the UK Parliament website: [www.publications.parliament.uk/pa/pabills.htm](http://www.publications.parliament.uk/pa/pabills.htm)

the Companies Act 1985 and intends to make the law easier to understand and use. It also extends company law to the whole of the United Kingdom. The Board will consider the impact of the changes on the FRSSE in a future update.

### ***International developments***

- 24 There is currently no international equivalent standard to the FRSSE. The IASB is undertaking a project which aims to reduce the burden on Small and Medium-sized Entities of applying International Accounting Standards. The IASB plans to issue an exposure draft of an accounting standard for SMEs during 2006.
- 25 It is unlikely that the IASB will introduce an International Financial Reporting Standard for SMEs before 2007 and the Board has concluded that, in the meantime, the FRSSE should be updated for changes in UK accounting standards and company law requirements.

### ***Invitation to comment***

- 26 The Board would welcome comments on any aspect of the Exposure Draft. Respondents' views are especially sought on the matters set out below. It would be helpful if respondents could support comments with reasons and, where applicable, preferred alternatives.

### ***Share-based payment***

- 1 Do you agree that the FRSSE should reflect the requirements of FRS 20 with no simplifications for smaller entities (see paragraphs 18 to 20 of Appendix I)? If not, why not and what requirements would you propose?

*Other topics not included in the proposed revised FRSSE*

- 2 Would you wish to include in the revised FRSSE any of the requirements from FRSs 22 to 29, amendments to FRS 2 and FRS 26 and UITF Abstract 39 (see paragraphs 4 to 17 in Appendix I)? If so, what would you include?
- 3 Would you like Appendix III “Illustrative Examples and Practical Examples to include guidance on FRS 25, in particular the presentation requirements for classification of capital instruments between debt and equity?

*Company Law*

- 4 Do you have any specific comments on the proposals to reflect recent changes to company law in the FRSSE (paragraphs 22 to 24 in Appendix I)?

*Scope of the FRSSE*

- 5 Do you agree that small companies wishing to adopt the option to fair value financial instruments and certain other assets should be precluded from adopting the FRSSE (as explained in paragraph 21 of Appendix I)?

*Presentational changes*

- 6 Do you agree with the proposals for these minor presentational changes to the FRSSE (see paragraphs 26 to 27 in Appendix I)?

*Other*

- 7 Are there any further changes that you think should be made to the FRSSE (effective 2005)?

## PROPOSED AMENDMENTS TO THE STATEMENT OF STANDARD ACCOUNTING PRACTICE AND DEFINITIONS

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### *Corresponding amounts (FRS 28)\**

- 1 The legal requirements reflected in paragraph 2.23 of the Statement of Standard Accounting Practice of the FRSSE are deleted and replaced by the following paragraph. The associated footnote inserted by the consequential amendment set out in FRS 28 is deleted:

**“2.23** Corresponding amounts for the previous accounting period shall be shown for every item disclosed in the balance sheet, profit and loss account and notes to the financial statements. Where there is no amount to be shown for an item for the current accounting period but a corresponding amount can be shown for the previous accounting period, the corresponding amount shall be shown. Where a corresponding amount is not comparable with that for the current accounting period, it shall be adjusted and particulars of the adjustment and the reasons for it shall be disclosed in a note to the financial statements. Corresponding amounts are not required in relation to any amounts stated in the notes to the financial statements for the items listed below:

- (a) details of additions, disposals, revaluations, transfers and cumulative depreciation of fixed assets;

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\* *These amendments have been made by FRS 28 Corresponding Amounts. They take effect for accounting periods beginning on or after 1 January 2005 and ending on or after 1 October 2005. The amendments are reproduced here for information.*

- (b) transfers to or from reserves and provisions and the source and application of any transfers;
- (c) details of a company's shareholdings in subsidiary undertakings;
- (d) details of a company's significant holdings in undertakings other than subsidiary undertakings.

Footnote

~~\* The requirements in paragraph 2.23 apply to accounting periods which begin on or after 1 January 2005 and which end on or after 1 October 2005.~~

- 2 Paragraph 16.1 of the Statement of Standard Accounting Practice is amended as follows:

**16.1** “.....as they apply in respect of **consolidated financial statements**, FRSs 5, 9, 10<sup>\*</sup>, ~~and 11 and 28.~~”

***UITF Abstract 40: Revenue recognition and service contracts***

- 3 The following subheading and paragraphs are inserted immediately after paragraph 4.9 in Section 4 “Revenue Recognition” of the Statement of Standard Accounting Practice of the FRSSE.

*Revenue recognition and service contracts*

- 4.10** Where there are distinguishable phases of a single contract it may be appropriate to account for the contract as two or more separate transactions, provided the value of each phase can be reliably estimated.
- 4.11** Contracts for services should not be accounted for as long-term contracts unless they involve the provision

of a single service, or a number of services that constitute a single project.

**4.12** A contract for services should be accounted for as a long-term contract where contract activity falls into different accounting periods and it is concluded that the effect is material. In determining whether contracts should be accounted for as long-term contracts, the aggregate effect of all such contracts on the financial statements as a whole should be considered.

**4.13** Where the substance of a contract is that the seller's contractual obligations are performed gradually over time, revenue should be recognised as contract activity progresses to reflect the seller's partial performance of its contractual obligations. The amount of revenue should reflect the accrual of the right to consideration as contract activity progresses by reference to value of the work performed.

**4.14** Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs.

**4.15** The amount of revenue recognised on any contract for services should reflect any uncertainties as to the amount that the customer will accept and pay.

***(IFRS 2) Share-based payment (FRS 20)***

**4** The following subheading and paragraphs are inserted immediately after paragraph 12.12 in section 12 'Financial Instruments' of the Statement of Standard Accounting Practice of the FRSSE.

*“Share-based payments*

- 12.13** An entity which undertakes **share-based payment transactions**, including transactions with **employees or other parties to be settled in cash, other assets, or equity instruments of the entity shall refer to Appendix III “Accounting for share-based payment transactions”**.

*Amendments to definitions*

- 5** The following definitions are inserted in Part C ‘Definitions’ of the FRSSE:

*Cash-settled share-based payment transaction:-*

A **share-based payment transaction** in which the entity acquires goods or services by incurring a **liability** to transfer cash or other **assets** to the supplier of those goods or services for amounts that are based on the price (or value) of the entity’s shares or other **equity instruments** of the entity.

*Employees and others providing similar services:-*

Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, ie those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.

*Equity Instrument granted:-*

The right (conditional or unconditional) to an **equity instrument** of the entity conferred by the entity on another party, under a share-based payment arrangement.

*Equity-settled share-based payment transaction:-*

A **share-based payment transaction** in which the entity receives goods or services as consideration for **equity instruments** of the entity (including shares or share options).

*Grant date:-*

The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other **assets**, or **equity instruments** of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

*Share-based payment transaction:-*

A transaction in which the entity receives goods or services as consideration for **equity instruments** of the entity (including shares or share options), or acquires goods or services by incurring **liabilities** to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other **equity instruments** of the entity.

***Amendments arising from changes in Company Law***

*Disclosure of staff particulars*

- 6 The legal requirements reflected in paragraphs 17.4 and 17.5 and the associated footnote are deleted.

*The principal activities of the company*

- 7 The legal requirement reflected in paragraph 18.4 is deleted.

### ***Presentational changes***

#### *Going concern*

- 8** The final sentence of paragraph 2.12 is deleted.

#### *Consideration of fixed asset values for distribution of profits and assets*

- 9** The following sub-heading is inserted immediately preceding paragraph 6.49:

*“Consideration of fixed asset values for distribution purposes”*

#### *The company’s share capital*

- 10** The following is added to paragraph 12.12:

“UNLESS THE SUBSIDIARY UNDERTAKING IS CONCERNED AS PERSONAL REPRESENTATIVE OR AS TRUSTEE.”

#### *Transactions with directors*

- 11** Paragraph 15.12 and 15.14 are amended as follows:

“**15.12** FOR EACH TRANSACTION, ARRANGEMENT OR AGREEMENT, SEPARATE DISCLOSURE SHALL BE PROVIDED OF ~~(COMPARATIVES NOT REQUIRED)~~.”

“**15.14** FOR ANY TRANSACTION OR ARRANGEMENT (OTHER THAN LOANS) IN WHICH A **DIRECTOR** (INCLUDING A SHADOW DIRECTOR) OR CONNECTED PERSON HAD DIRECTLY OR INDIRECTLY A MATERIAL INTEREST, DISCLOSE ~~(COMPARATIVE AMOUNTS NOT REQUIRED)~~.”

#### *Subsidiary undertakings*

- 12** A footnote is added to the heading preceding paragraph 15.17 as follows:

*Holdings in subsidiary undertakings\**

Footnote:

\* Disclosure requirements for holdings in undertakings other than subsidiary undertakings are set out in paragraph 6.33.

- 13 The following text is added after paragraph 15.17:

THE SHARES HELD BY THE COMPANY ITSELF SHALL BE DISTINGUISHED FROM THOSE ATTRIBUTED BY THE COMPANY WHICH ARE HELD BY THE SUBSIDIARY UNDERTAKING.

*Membership of certain undertakings*

- 14 The cross reference in paragraph 15.23 is amended as follows:

**15.23** INFORMATION OTHERWISE REQUIRED BY PARAGRAPH 15.22~~1~~ ABOVE NEED NOT BE GIVEN IF IT IS NOT MATERIAL.

*Statement as to disclosure of information to auditors*

- 15 The legal requirement reflected in paragraph 18.12 is amended as follows:

**18.12** ~~IF A DIRECTORS' REPORT IS APPROVED ON OR AFTER 6 APRIL 2005 THEN,~~ FOR AUDITED COMPANIES, THE DIRECTORS' REPORT SHALL CONTAIN A STATEMENT THAT, SO FAR AS EACH OF THE DIRECTORS AT THE TIME THE REPORT IS APPROVED ARE AWARE:

(A) THERE IS NO RELEVANT AUDIT INFORMATION OF WHICH THE COMPANY'S AUDITORS ARE UNAWARE, AND

(B) THE DIRECTORS HAVE TAKEN ALL STEPS THAT THEY OUGHT TO HAVE TAKEN TO MAKE THEMSELVES AWARE OF ANY RELEVANT AUDIT INFORMATION AND TO ESTABLISH THAT THE AUDITORS ARE AWARE OF THAT INFORMATION.

*Date from which effective*

*Amendment to Statement of Standard Accounting Practice*

**16** Paragraph 19.1 of the Statement of Standard Accounting Practice is amended to read as follows:

**19.1** The accounting practices set out in this [draft] Financial Reporting Standard for Smaller Entities [2006] shall be regarded as standard in respect of financial statements relating to accounting periods beginning on or after [date to be inserted]. Earlier application is not permitted.

## **PROPOSED AMENDMENT TO THE STATUS OF THE FRSSSE**

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### *Scope*

- 1 A new sub-paragraph is inserted after paragraph 8(vi):
  - “(vii) companies preparing individual or group accounts in accordance with the fair value accounting rules for certain assets and liabilities set out in part D of Schedule 8 to the 1985 Companies Act.”

**PROPOSED NEW APPENDIX III  
‘‘ACCOUNTING FOR SHARE-BASED  
PAYMENT TRANSACTIONS’’**

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1. The following requirements should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after [date to be inserted after exposure]. Earlier adoption is permitted.
  - (a) An entity shall **recognise** the goods or services received or acquired in a **share-based payment transaction** when it obtains the goods or as the services are received. The entity shall **recognise** a corresponding increase in equity if the goods or services were received in an **equity-settled share-based payment transaction**, or a **liability** if the goods or services were acquired in a **cash-settled share-based payment transaction**.
  - (b) When the goods or services received or acquired in a **share-based payment transaction** do not qualify for recognition as **assets**, they shall be **recognised** as expenses.
  - (c) For **equity-settled share-based payment transactions**, the goods or services received and the corresponding increase in equity shall be measured at the **fair value** of the goods or services received. If the **fair value** of the **equity instruments granted** can be measured more reliably this value shall be used instead.
    - (i) For transactions with **employees and others providing similar services**, the measurement date is **grant date**.
    - (ii) For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

- (d) For **cash-settled share-based payment transactions**, the goods or services acquired and the corresponding **liability** incurred shall be measured at the **fair value** of the **liability**. Until the **liability** is settled, the **fair value** of the **liability** shall be revalued at each balance sheet date and at the date of settlement, with any changes in **fair value recognised** in profit or loss for the period.
- (e) For **share-based payment transactions** in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the transaction, or the components of the transaction, shall be accounted for in accordance with the principles set out in paragraph (c) or (d) above, as appropriate.
- (f) Information shall be disclosed in a note that enables users of the financial statements to understand the effect of **share-based payment transactions** on the entity's profit or loss for the period and on its financial position.

## **PROPOSED REMOVAL OF APPENDICES V TO VII – DERIVATION TABLES**

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- 1 It is proposed to remove the following appendices from the published FRSSE:

Appendix V Derivation tables in respect of accounting standards

Appendix VI Simplifications in the FRSSE

Appendix VII Derivation tables in respect of legislation

- 2 However, the derivation information provided in these appendices will be available from the ASB website. Derivation information will also be provided in exposure drafts as part of the consultation process to assist constituents comment on the proposals.

## **APPENDIX I**

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### **THE DEVELOPMENT OF THE EXPOSURE DRAFT**

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#### *Background*

- 1 Financial reporting continues to change and evolve. Eight new Financial Reporting Standards, two amendments to existing Financial Reporting Standards and two UITF Abstracts have been issued since October 2004, when the last Exposure Draft of amendments to the FRSSE was published.
- 2 In developing this Exposure Draft, the Board, with the help of its Committee on Accounting for Smaller Entities, has reviewed the changes in financial reporting for larger entities arising from these new FRSs, amendments to FRSs and Abstracts and considered whether they are appropriate for smaller entities. The Exposure Draft also considers FRS 20, which was not addressed in the last amendment of the FRSSE and reflects changes in company law financial reporting requirements affecting smaller entities.
- 3 The discussion below outlines the Board’s reasoning for the proposed amendments to the FRSSE as set out in this Exposure Draft.

#### *Amendment to FRS 2 ‘Accounting for subsidiary undertakings’*

- 4 The Amendment to FRS 2 reflects legal changes that were introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004. In summary the amendments:

- delete references to ‘participating interest’ in the definition of a subsidiary undertaking and introduce ‘the power to exercise or actually exercise, dominant influence and control’;
  - reflect the exemption from the preparation of consolidated accounts for intermediate parent undertakings whose immediate parents are not governed by the law of an European Economic Area (EEA) state; and
  - remove the requirement for exclusion from consolidation of subsidiaries with dissimilar operations to the parent undertaking.
- 5 Whilst the FRSSE permits the preparation of consolidated accounts, it does not address the detail of preparing them and so the Exposure Draft does not, therefore, include amendments in respect of the Amendment to FRS 2.

### ***FRS 22 ‘(IAS 33) Earnings per share’***

- 6 This standard replaces FRS 14 *Earnings per Share* (for accounting periods beginning 1 January 2005) as part of the Board’s convergence programme with international financial reporting standards (IFRSs) issued by the International Accounting Standards Board (IASB). FRS 14 is not addressed by the FRSSE as few small companies report this figure and consequently it is proposed that the Exposure Draft does not include amendments in respect of FRS 22.
- 7 FRS 22 makes a consequential amendment to Appendix VI ‘Simplifications in the FRSSE’ in that the references to ‘FRS 14 *Earnings per Share*’ are deleted and replaced by ‘Financial Reporting Standard 22 (IAS 33) *Earnings per Share*’. The FRS also deletes paragraph 25 of FRS 3 which is also referred to in Appendix VI. These consequential amendments will be incorporated into the derivation tables.

***FRS 23 ‘(IAS 21) The effects of changes in foreign exchange rates’***

***FRS 24 ‘(IAS 29) Financial reporting in hyperinflationary economies’***

***FRS 25 ‘(IAS 32) Financial Instruments: disclosure and presentation’***

***FRS 26 ‘(IAS 39) Financial Instruments: measurement’***

***Amendment to FRS 26 ‘(IAS 39) Financial Instruments: measurement’***

- 8 These standards were introduced together as a package as part of the Board’s convergence programme with IFRSs. The Amendment to FRS 26 tracks changes made by the IASB to IAS 39. The standards currently apply to listed entities or entities using the fair value accounting rules. The Board issued a FRED in April 2005 proposing to extend the scope of these standards to all entities (except those using the FRSSE) for accounting periods beginning on or after 1 January 2007. The Board is still considering whether to implement this proposal and so it is proposed that, at this stage, the FRSSE should not address these standards. The Exposure Draft does not, therefore, include amendments in respect of these standards.
- 9 The basic presentation requirements of FRS 25 are already reflected in the FRSSE (effective January 2005) to maintain consistency with underpinning legal requirements. Since few smaller entities will encounter the transactions it is not proposed to make any further changes to the FRSSE. Comments are however being invited on whether further guidance might be provided in an Appendix, particularly in terms of the classification of capital instruments between debt and equity.

***FRS 27 ‘Life Assurance’***

- 10 This standard applies only to those entities that have a life assurance business. Companies undertaking insurance market activities are excluded from the small company criteria set out in Company Law for reasons of public interest and so the FRSSE does not address this standard.

***FRS 28 ‘Corresponding amounts’****The requirements of FRS 28*

- 11 As a consequence of amendments\* to the Companies Act 1985 it falls to accounting standards to prescribe whether corresponding amounts should be restated and whether corresponding amounts should be provided for amounts disclosed in the notes to the financial statements. The Board issued FRS 28 *Corresponding Amounts* in October 2005. As the legal requirements for corresponding amounts reflected in paragraph 2.23 of the 2005 FRSSE have been superseded and, consistent with the objective of FRS 28 to maintain the existing requirements for disclosing corresponding amounts, a consequential amendment was made to the FRSSE. This amendment takes effect for accounting periods beginning on or after 1 January 2005 and which end on or after 1 October 2005.

*Simplifications*

- 12 Paragraph 2.23 has been deleted and replaced with requirements reflecting those of FRS 28. There is no reference to primary financial statements as the FRSSE already deals specifically with which statements should be prepared. Since the FRSSE does not reflect specific requirements for the preparation of consolidated financial statements, paragraph 16.1 has been amended to refer the

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\* *Companies Act 1985 (Investment Companies and Accounting and Audit Amendments) Regulations 2005.*

reader to the full standard if preparing group accounts. Consequently there is no reference to the disclosure exemptions for consolidated financial statements. The consequential amendments are reproduced in this Exposure Draft for information.

***FRS 29 ‘(IFRS 7) Financial Instruments: disclosures’***

- 13 FRS 29 only applies to entities within the scope of FRS 26 noted in paragraph 8 above and supersedes the disclosure requirements of FRS 25 and FRS 13 *Derivatives and other financial instruments: Disclosures*. Consistent with the consideration of FRS 26, the Exposure Draft does not include amendments in respect of this standard.

***UITF Abstracts***

*UITF Abstract 39 ‘(IFRIC interpretation 2) Members shares in cooperative entities and similar instruments’*

- 14 The Abstract applies to financial instruments within the scope of FRS 25 ‘Financial Instruments: disclosure and presentation’ including financial instruments issued to members of co-operative entities that evidence the members’ ownership interests in the entity. It gives guidance on the classification of members’ shares as equity or as financial liabilities. While the basic presentation requirements of FRS 25 are already reflected in the FRSSE, the issues dealt with by the Abstract are not sufficiently relevant to smaller entities to warrant inclusion in the FRSSE.

*UITF Abstract 40 ‘Revenue recognition and service contracts’*

- 15 The Abstract explains that Application Note G to FRS 5 requires all contracts for services to be accounted for in accordance with its general principles.
- 16 The general principles of Application Note G to FRS 5 are reproduced in Section 4 of the FRSSE. The accounting

requirements for some of the specific types of revenue transactions set out in the Application Note are reflected in Appendix III of the FRSSE as additional guidance. The general principles of Application Note G and the requirements of Abstract 40 have had a significant impact on revenue recognition for some entities undertaking service contracts.

- 17 The Abstract deals with a specific type of revenue transaction and therefore supplements the general principles set out in the FRSSE. However, to ensure smaller entities are clear that the consensus paragraphs of UITF Abstract 40 do need to be applied by smaller entities adopting the FRSSE, it is proposed to include these paragraphs within the revenue recognition section of the Statement of Standard Accounting Practice in Section B of the FRSSE.

### ***FRS 20 ‘(IFRS 2) Share-based Payment’***

#### *The requirements of FRS 20*

- 18 FRS 20 addresses transactions in which an entity receives or acquires goods or services either as consideration for its equity instruments (equity-settled) or by incurring liabilities for amounts based on the price of the entity’s shares or other equity instruments (cash-settled). An expense is recognised when the goods or services received are consumed. For equity-settled share-based payment transactions the FRS requires an entity to measure the goods or services received and the corresponding increase in equity, directly, at the fair value of the goods or services received. If a reliable value cannot be estimated the transaction should be measured, indirectly, by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions the FRS requires an entity to measure the goods or services acquired and the liability incurred at the fair value of the liability. The FRS also requires a number of disclosures including how fair values have been determined.

### *Simplifications*

- 19 FRS 20 was issued in April 2004 and applies to unlisted entities—other than those adopting the FRSSE—for accounting periods beginning 1 January 2006. In developing the FRSSE (effective 2005) the Board noted that smaller entities may rarely use share-based payment and it consulted on whether a future exposure draft should propose introducing requirements from FRS 20. There was some support from respondents for this approach, although respondents noted the difficulties and costs small companies may encounter in determining the fair value of share-based payments.
- 20 In considering this matter further, the Board has decided not to introduce simplified arrangements for accounting for share-based payment transactions. The Board is however specifically seeking comments on this proposal as part of the consultation. This should allow the Board to consider this matter further before any amendment to the FRSSE becomes effective.

### *Scope of the FRSSE*

- 21 From 1 January 2005 Regulations\* introduced the option to fair value financial instruments and other assets and liabilities. The Board does not propose to introduce the fair value option into the FRSSE at this stage. To clarify this the Exposure Draft proposes to amend the Status of the FRSSE to exclude companies preparing individual or group accounts in accordance with the fair value accounting rules set out in the Companies Act.

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\* *Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.*

***Recent changes in company law****The Companies Act 1985 (Operating and Financial Review and Directors' Report) Regulations 2005*

- 22 These Regulations take effect for financial years which begin on or after 1 April 2005 (regulations dealing with revision of defective reports and reviews came into force on 1 October 2005). While the provisions relating to the Operating and Financial Review are not relevant for small companies (and have subsequently been removed by SI 2005/3442), the Regulations make a number of minor amendments that impact on company law requirements reflected in paragraphs 18.3 to 18.5 of the FRSSE. In two cases the requirements replace existing requirements. However, a company is no longer required to describe any significant changes in its principal activities, so it is proposed to delete paragraph 18.4 from the FRSSE.

*The Companies Act 1985 (Investment Companies and Accounting and Audit Amendments) Regulations 2005*

- 23 These Regulations remove the requirement to give comparable corresponding amounts and take effect for financial years beginning on or after 1 January 2005 and ending on or after 1 October 2005. As noted in paragraph 11 above, a consequential amendment from FRS 28 has already been made to the FRSSE for this change. In addition, the Regulations reinstate the exemption for small companies to disclose details of staff particulars. Consequently paragraphs 17.4 and 17.5 are deleted.

*The Companies (Summary Financial Statement) (Amendment) Regulations 2005*

- 24 These Regulations, which take effect on 1st October 2005, amend the Companies (Summary Financial Statement) Regulations 1995. Preparation of summary financial statements is not dealt with by the FRSSE and so changes set out in the Regulations do not need to be reflected in the Exposure Draft.

### ***Company Law Reform Bill***

- 25 The DTI recently published the Company Law Reform Bill which is the culmination of the Company Law Review began in 1998. The Bill amends and codifies many of the provisions of the Companies Act 1985 and intends to make the law easier to understand and use. It also extends company law to the whole of the United Kingdom. The Company Law Reform Bill will take several months to complete its passage through Parliament and is not expected to come into force before 2007. The Board will consider the impact of the Bill in a future update to the FRSSE.

### ***Presentational changes***

- 26 The Company Law requirements relevant to the preparation of small company accounts were reflected for the first time in the ‘one-stop shop’ FRSSE 2005. In reflecting these requirements there is, in a few places, some internal inconsistency and ambiguity. This Exposure Draft therefore proposes that in these cases some of the legal requirements reflected in the FRSSE should be clarified. Briefly, these are:
- Going concern (paragraph 2.12);
  - Consideration of fixed asset values for distribution of profits and assets (paragraph 6.49);
  - The company’s share capital (paragraph 12.12);
  - Comparative amounts for certain transactions with directors (paragraphs 15.12 and 15.14);
  - Subsidiary undertakings and significant holdings in other undertakings (paragraphs 15.16 and 15.17); and
  - Statement as to disclosure of information to auditors (paragraph 18.12).

- 27 To make the FRSSE a more manageable document it is also proposed to remove the derivation information in Appendices V to VII. Since this information is useful to constituents using the FRSSE it would continue to be freely available, from the ASB website.

### ***International developments***

- 28 There is currently no international equivalent standard to the FRSSE. The IASB is undertaking a project which aims to reduce the burden on Small and Medium-sized Entities (SMEs) of applying International Accounting Standards. The IASB issued in 2004 a Discussion Paper setting out its preliminary views on accounting standards for SMEs. The IASB has indicated that these standards should not be expected to be suitable for entities with public accountability, although it has not set quantitative criteria for determining those entities the standards should be suitable for. However, the advice of the IASB's Working Group is that for the purposes of developing its standards for SMEs the IASB should have in mind an entity with 50 employees and turnover of €10 million and aim for a document of approximately 200 pages.
- 29 It is unlikely that the IASB will introduce an International Financial Reporting Standard for SMEs before 2007 and the Board has concluded that, in the meantime, the FRSSE should be updated where appropriate for new UK Standards and Company Law requirements.

## **APPENDIX II**

### **PROPOSED AMENDMENTS TO APPENDIX I – NOTE ON LEGAL REQUIREMENTS FOR COMPANIES**

Appendix I of the FRSSE summarises the legal requirements for small companies in Great Britain, Northern Ireland and the Republic of Ireland and does not form part of the Financial Reporting Standard.

#### ***Great Britain***

*Companies Act 1985, sections 247-249*

Sub-paragraphs 2(d), 2(e) and 2(f) are deleted and replaced with the following:

- “(d) a person authorised under Part 4 of the Financial Services and Markets Act 2000 to carry on one or more regulated activities; or
- (e) a person who carries on an insurance market activity.”

#### ***Derivation tables for legal requirements referred to in the FRSSE***

Paragraphs 7-11 of the Appendix are amended as follows:

- 7 ~~A d~~ Derivation tables for all the legal requirements referred to in the FRSSE ~~are~~ available from the ASB website ~~given in Table 1 of Appendix VII which indicates the source of company law in Great Britain, Northern Ireland and the Republic of Ireland.~~
- 8 Republic of Ireland users of the FRSSE should note that the requirements of company law as shown in

SMALL CAPITALS in the text of the FRSSE relate to UK company law as applicable to small companies. The corresponding reference to Republic of Ireland companies legislation is shown in Table 1 of the derivation tables Appendix VII to the FRSSE. However, Republic of Ireland users should note that the detail of the Republic of Ireland legal requirements in many cases differs from UK company law.

- 9 In addition, there are a number of Republic of Ireland legal requirements that are not reflected in the FRSSE. There is no equivalent to Schedule 8 of the Companies Act 1985 providing certain exemptions for small companies when preparing annual accounts for shareholders. Exemptions from company law requirements for small companies in the Republic of Ireland are limited and relate primarily to information that must be filed with the Companies Registration Office. These additional requirements are referenced in Table 2 of the derivation tables Appendix VII.
- 10 There are no special provisions in Republic of Ireland company law that relate to the preparation of group accounts by small entities. The general requirement for the preparation of group accounts is contained in section 150 of the Companies Act 1963. Regulation 7 of the EC (Companies: Group Accounts) Regulations 1992, SI 201/1992, contains an exemption from the requirement to prepare group accounts for certain undertakings to whom the above Regulation applies. The legal references are given in Table 2 of the derivation tables Appendix VII.
- 11 Republic of Ireland users should refer to the underlying legislation when using the FRSSE. The Republic of Ireland legal requirements set out in the derivation tables Appendix VII are intended to reflect company law as applicable to accounting periods beginning on or after 1 January 2005.”

## APPENDIX III

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### PROPOSED AMENDMENTS TO APPENDIX III – ILLUSTRATIVE EXAMPLES AND PRACTICAL CONSIDERATIONS

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Appendix III of the FRSSE (which under the proposed amendment will become Appendix IV) contains illustrative examples and practical considerations for general guidance and does not form part of the Financial Reporting Standard. The best form of disclosure reporting will depend on individual circumstances.

*Example: Disclosure - defined benefit pension scheme\**

*The example and associated footnote are deleted and replaced with the following text and footnote:*

“The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was as at 31 December 2005 which has been updated to reflect conditions at the balance sheet date. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment returns would be 6 per cent per year, that salary increases would average 4 per cent per year and that present and future pensions would increase at the rate of 3 per cent per year.

The pension charge for the year was £46,000 (2005 £25,000). This included £12,000 (2005 £nil) in respect of

past service costs. The contributions of the company and employees will remain at 10 per cent and 5 per cent of earnings respectively.

The defined benefit scheme is closed to new members and so under the projected unit method the current service cost would be expected to increase over time as members of the scheme approach retirement.

Value of scheme assets and liabilities	2006 £	2005 £
Market value of assets	1,488,000	962,000
Present value of scheme liabilities	<u>(1,009,000)</u>	<u>(758,000)</u>
Pension scheme surplus/ (deficit)	479,000	204,000
Related deferred tax asset/ (liability)	<u>(144,000)</u>	<u>(61,000)</u>
Net pension scheme asset/ (liability)	335,000	143,000
Movements in year	2006 £	2005 £
Pension scheme surplus/ (deficit) at beginning of year	204,000	92,000
Current service cost	(34,000)	(25,000)
Cash contribution	25,000	35,000
Past service costs	(12,000)	0
Other finance income	20,000	11,000
Actuarial gain	<u>276,000</u>	<u>91,000</u>
Pension scheme surplus/ (deficit) at end of year	479,000	204,000

#### Footnote

★ This example reflects the disclosure requirements of paragraph 2 of Appendix II which became mandatory in full for years ending on or after 22 June 2006.”

***Practical considerations – Stocks and long-term contracts***

The final sentence in paragraph 23 (reference to definition of turnover) is deleted.

***Practical considerations – Bill and hold arrangements***

The heading to paragraphs 41 and 42 is amended to read “Accounting”.

***Practical considerations – Sales with rights of return***

The heading to paragraphs 51 to 53 is amended to read “Accounting”.

***Practical considerations – Presentation of turnover as principal or as agent***

The heading to paragraphs 61 to 66 is amended to read “Accounting”.

## **APPENDIX IV**

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### **DERIVATION TABLES IN RESPECT OF ACCOUNTING STANDARDS FOR PROPOSED AMENDMENTS TO THE FRSSE**

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These derivation tables are intended to assist readers of the FRSSE in understanding the sources used in its compilation and the changes it makes to the body of accounting standards that entities not adopting the FRSSE would have to apply. The tables analyse each paragraph of the FRSSE and explain the source, and whether that source has been adopted (a) in its entirety, or (b) with minor amendments, or (c) with major changes. Major changes are deemed to be those where either a disclosure requirement has been lifted, or measurement has been simplified.

The tables below provide derivation information for the new and revised paragraphs proposed in this Exposure Draft. This information will be incorporated into the full derivation tables available on the ASB website once the revised version of the FRSSE is issued.

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
2.23	FRS 28 (6, 8, 9, 10 and 11(a), (b), (d) and (e))	✓		
4.10	UITF 40 (23)	✓		
4.11	UITF 40 (24)	✓		
4.12	UITF 40 (25)	✓		
4.13	UITF 40 (26)	✓		
4.14	UITF 40 (27)	✓		
4.15	UITF 40 (28)	✓		
12.13	FRS 20	✓		

## **APPENDIX V**

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### **DERIVATION TABLES IN RESPECT OF SIMPLIFICATIONS FOR PROPOSED AMENDMENTS TO THE FRSSE**

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These derivation tables set out simplifications that have been made in the FRSSE as compared with the existing body of accounting standards. The analysis below is based on a comparison between the FRSSE and:

- (a) the Standard Accounting Practice section in SSAPs;
- (b) the Statement of Standard Accounting Practice in FRSs;  
and
- (c) the UITF Consensus in UITF Abstracts.

It therefore does not take into consideration any of the explanatory notes that are included in the SSAPs and FRSs, nor does it attempt to list definitions that are set out in the SSAPs and FRSs but have not been incorporated into the FRSSE.

Set out below are the comparisons for the proposed amendments to the FRSSE in this Exposure Draft. This information will be incorporated into the full derivation tables available on the ASB website once the revised version of the FRSSE is issued.

Simplifications in the [draft] FRSSE [2006]	Paragraph in source
<p><b>FRS 3</b> <i>Reporting Financial Performance</i></p> <ul style="list-style-type: none"> <li>◆ <del>No reference to earnings per share.</del></li> </ul>	25
<p><del><b>FRS 14</b></del> <del><i>Earnings per Share</i></del></p> <ul style="list-style-type: none"> <li>◆ <del>FRS 14 is not addressed by the FRSSE.</del></li> </ul>	-
<p><del><b>FRS 20</b></del> <del><i>Share-based payment</i></del></p> <ul style="list-style-type: none"> <li>◆ <del>The FRSSE does not address FRS 20 in this version but may do so in a future update.</del></li> </ul>	-
<p><b>FRS 22</b> <i>Earnings per Share</i></p> <ul style="list-style-type: none"> <li>◆ FRS 22 is not addressed by the FRSSE.</li> </ul>	-
<p><b>FRS 23</b> <i>(IAS 21 The effects of changes in foreign exchange rates)</i></p> <ul style="list-style-type: none"> <li>◆ The FRSSE does not address FRS 23 in this version but may do so in a future update.</li> </ul>	-
<p><b>FRS 24</b> <i>(IAS 29 Financial reporting in hyperinflationary economies)</i></p> <ul style="list-style-type: none"> <li>◆ The FRSSE does not address FRS 24 in this version but may do so in a future update.</li> </ul>	-

<b>Simplifications in the [draft] FRSSE [2006]</b>	<b>Paragraph in source</b>
<b>FRS 25</b> <b><i>(IAS 32 Financial Instruments: Disclosure and Presentation)</i></b>	
◆ No reference to compound financial instruments.	28
◆ No reference to Treasury shares.	33
◆ No reference to offsetting a financial asset and a financial liability.	42
◆ The FRSSE does not address the disclosure requirements of FRS 25 in this version but may do so in a future update.	51-95
<b>FRS 26</b> <b><i>(IAS 39 Financial Instruments: Measurement)</i></b>	
◆ The FRSSE does not address the disclosure requirements of FRS 26 in this version but may do so in a future update.	
<b>FRS 27</b> <b><i>Life Assurance</i></b>	
◆ FRS 27 is not addressed by the FRSSE.	-
<b>FRS 28</b> <b><i>Corresponding Amounts</i></b>	
◆ No reference to primary financial statements.	6, 7
◆ No reference to disclosure exemptions for consolidated financial statements	10

<b>Simplifications in the [draft] FRSSE [2006]</b>	<b>Paragraph in source</b>
<p><b><i>FRS 29</i></b> <b><i>(IFRS 7 Financial Instruments: Disclosure)</i></b></p> <ul style="list-style-type: none"> <li>◆ The FRSSE does not address the requirements of FRS 29 in this version but may do so in a future update.</li> </ul>	
<p><b><i>UITF Abstract 39</i></b> <b><i>(IFRIC Interpretation 2) Members' shares in cooperative entities and similar instruments</i></b></p> <ul style="list-style-type: none"> <li>◆ Not addressed by the FRSSE.</li> </ul>	
<p><b><i>UITF Abstract 40</i></b> <b><i>Revenue recognition and service contracts</i></b></p> <ul style="list-style-type: none"> <li>◆ Consensus paragraphs reproduced in section 12 of Statement of Standard Accounting Practice.</li> </ul>	

## **APPENDIX VI**

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### **DERIVATION TABLES IN RESPECT OF LEGISLATION FOR PROPOSED AMENDMENTS TO THE FRSSSE**

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These derivation tables are intended to assist readers of the FRSSSE refer to the sources of legislation used in its compilation. For each relevant paragraph of the FRSSSE it notes the source in British law and the equivalent sources for Northern Ireland and the Republic of Ireland. Additional legal requirements apply to companies registered in the Republic of Ireland which are reflected in Table 2.

The tables below provide information for the new and revised paragraphs proposed in this Exposure Draft. This information will be incorporated into the full derivation tables available on the ASB website once the revised version of the FRSSSE is issued.

Table 1: Sources of legislation cited in the FRSSE

FRSSE Paragraph	GB Companies Act Reference	Description	NI Companies Order 1986 Reference	Republic of Ireland Reference
2.23	Sch8:4 Sch8:51(2)	The need to provide comparative amounts and the treatment of non-comparable amounts.	Sch8:4 Sch8:51(2)	4(8) & Sch part IV, 44(2), 1986 Act
12.12	Sch5:6(2)	Exemptions for disclosure of shares in the company held by subsidiary undertakings.	Sch5:6	Sch part IV, 46(1), 1986 Act
15.16	Sch5:1	Subsidiary undertakings.	Sch5:1	158(4)&158(5), 1963 Act 16(1)(i), 1986 Act
15.17	Sch5:2	Holdings in subsidiary undertakings.	Sch5:2	16(1)(ii), 1986 Act
15.18	Sch5:3(1)	Financial information about subsidiary undertakings.	Sch5:3(1)	16(1)(iii-iv), 1986 Act
15.19(a)	Sch5:3(2)	Financial information about subsidiary undertakings.	Sch5:3(2)	88-9, SI 201/1992*
15.19(b)	Sch5:3(2A)		Sch5:3(2A)	16(2)(b), 1986 Act
15.19(c)	Sch5:3(3)		Sch5:3(3)	16(2)(c), 1986 Act
15.19(d)	Sch5:3(4)		Sch5:3(4)	16(2)(d), 1986 Act

\* SI 201/1992 EC. (Companies: Group Accounts) Regulations 1992

FRSSE Paragraph	GB Companies Act Reference	Description	NI Companies Order 1986 Reference	Republic of Ireland Reference
15.20	Sch5:3(5)	The relevant financial year.	Sch5:3(5)	—
15.21	Sch5:9A(1, 2)	Membership of certain undertakings.	Sch5:9A(1, 2)	6&7, EC (Accounts) Regs 1993, SI 396/1993
15.22	Sch5:9A(3)	Membership of certain undertakings.	Sch5:9A(3)	
15.23	Sch5:9A(4)	Membership of certain undertakings.	Sch5:9A(4)	
15.24	Sch5:9A(5)	Membership of certain undertakings.	Sch5:9A(5)	
47.4	S231A	Disclosure of staff numbers	239A	Sett Part IV; 42(4)
47.4	S231A	Disclosure of amounts payable for wages and salaries social security costs other pension costs	239A	Sett Part IV; 42(2), 74
48.4	S234(2)	Disclosure of significant changes in the company's principal activities.	242(2)	158(3), 1963 Act 43(e), 1986 Act

**Table 2: Republic of Ireland – legal requirements not reflected in the FRSSE**

There is no Republic of Ireland equivalent to Schedule 8 of the Companies Act 1985 providing certain exemptions for small companies when preparing annual accounts for shareholders. Exemptions from company law requirements for small companies in the Republic of Ireland are limited and relate primarily to information that must be filed with the Companies Registration Office. The table below reflects additional legal requirements which apply to companies registered in the Republic of Ireland which have not been reflected in the FRSSE. Directors of companies in the Republic of Ireland should refer to the underlying legislation for the detail. The legal requirements set out below are intended to reflect company law as applicable to accounting periods beginning on or after [1 January 2005][new date]. Information on these additional requirements has been provided by the Institute of Chartered Accountants in Ireland.

<b>FRSSE section</b>	<b>Description</b>	<b>Republic of Ireland reference</b>
2.23	The need to provide comparative amounts and the treatment of non-comparable amounts.	4(8) & Sch part IV, 44(2), 1986 Act*
17.4	Disclosure of staff numbers	Sch Part IV, 42(1)
17.4	Disclosure of amounts payable for wages and salaries social security costs other pension costs.	Sch Part IV, 42(2), 74
18.4	Disclosure of significant changes in the company's principal activities.	158(3), 1963 Act 13(a), 1986 Act

\* *Companies (Amendment) Act, 1986*





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