

Susan Kemp

From: Jim Gorton [jim@gortons.org]
Sent: 01 February 2010 17:50
To: UK Gaap
Subject: Comments on policy proposal on UK GAAP

Dear Sir / Madam

I am responding to the requests for comments on the above consultation document as I fear the UK accounting standard setters and 'powers that be' continue to be well wide of the mark when considering the SME sector.

1 About me

- a) I am a Chartered Accountant, in practice (partnership of 2) and with a client base ranging from the smallest of SME enterprises (eg. mobile hairdressers, corner shops etc) to larger companies, turning over up to £100m per annum.
- b) All these businesses are privately owned, and effectively owner-managed.
- c) I am aware that the ICAEW will submit its own comments but I strongly believe that my Institute is similarly skewed in its view of the SME sector.

2 The SME market

- a) I believe that, underpinning much of these issues, is a tendency to forget about the size and importance of the SME sector.
- b) I don't have the relevant statistics to hand, but I am sure you will have. If I am incorrect in my assumptions, please feel free to disregard my comments!
- c) I would estimate that SMEs account for 99%+ of all bodies that are required to prepare financial accounts or information in this country, excluding the public sector, whether this be for the taxman, Companies House or their own purposes. I am talking about sole-traders, partnerships, limited companies (private and PLCs). Unfortunately, policy setting is focussed almost entirely on the remaining 1%. NB I should be very interested to know what the actual figures are, if you could enlighten me.
- d) Clearly the listed sector contribute disproportionately to the economy or UKplc as a whole, but again my recollection is that the SME sector contributes a huge proportion of UKplc's income and profit each year. This is being stifled by needless bureaucracy, in all sorts of ways, but accounting standards (and the setters thereof) are very much part of the problem.
- e) I fully appreciate that listed and public interest entities have special requirements and need a separate rule-set accordingly, but this shouldn't need to impact on the SME sector.

3 "Mid-tier" firms

- a) When looking at different sets of rules, a lot of focus is on where the transition might lie from one set to another. The current proposals are frankly ridiculous.
- b) The transition should not be when an entity leaves the FRSSE sector, but when it joins the listed or public interest sector, or is approaching that sector. The reasons are:
 - i) The number of affected entities will be a fraction of those affected by the current proposals.
 - ii) Entities of that size are far better equipped to deal with the cost implications of a change of accounting standards.
- c) Make the transition when either turnover reaches £100m or the entity becomes of 'public interest' or seeks a listing (whether on AIM or the full exchange).

d) The presumption seems to be that, between the FRSSE and listed entities, the mid tier consists almost entirely of companies who are about to transfer to the AIM or who may do so in the near future. This is nonsense, and I would guess such companies account for around 1% of that tier. Again, I should be interested to know the exact proportion if you could let me know.

4 **Smaller entities**

a) Too much emphasis is placed on SIZE for SMEs and the definition thereof. Why should the accounting rules change just because a company's turnover grows? Surely the issue of OWNERSHIP should be considered when judging what set of rules is appropriate for a business (and for that matter, whether an audit is required), but this is currently ignored.

5 **Constancy for FRSSE businesses**

a) What smaller businesses want is NO CHANGE. The rules keep changing and there is simply no need.

b) It is a failure that the FRSSE itself is revised so often – it simply doesn't need to, and makes a mockery of the proposal to "*think small first*". If that were the case the FRSSE could be left alone for 10 years at a time, since debits and credits and what people really need to see in financial reports don't really change that much. It's the tinkering that changes.

c) Please – stop tinkering. When a new FRS comes out dealing with the rules on accounting for and valuing derivatives or whatever this shouldn't have any impact on the FRSSE.

d) Think about the impact all these changes have on the vast majority of UK businesses who have to refer to yet another set of new rules.

6 **Accounting rules for small businesses**

a) Frankly, I don't mind whether it's UK GAAP or IFRS or whatever, but please:

i) Decide, and stick with it.

ii) Stop tinkering.

iii) Ensure the same rules apply for ALL businesses that are privately owned and not in the 'public interest' sector, or at least up to turnover of £100million.

iv) If there's to be a change in accounting regimes based on size, this should be at the £100m turnover or above threshold, NOT at the FRSSE upper limit.

Thank you

Yours faithfully

Jim Gorton

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