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By email to: [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

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Dear Ms Carter

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

Deloitte LLP is pleased to respond to FRED 52: Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities (the proposed amendments to the FRSSE). We have set out our detailed response to the consultation question in Appendix 1 to this letter, together with some additional comments on issues not covered by the specific question. Appendix 2 contains some minor drafting comments and suggestions.

Overall we support the proposed amendments to the FRSSE. Our key comments, which we expand on in Appendix 1 to this letter, are as follows:

- we are concerned that preparers of micro-entity accounts may find it difficult to identify those requirements that are applicable to them, and suggest that these may be presented in a more user-friendly format; and
- we recommend that transitional provisions are implemented in respect of the proposed amendments which require micro-entities to apply historical cost accounting for tangible fixed assets, fixed asset investments and investment properties.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Anne Cowley on 0207 303 8361 or by email at [ancowley@deloitte.co.uk](mailto:ancowley@deloitte.co.uk), or Ken Rigelsford on 0207 007 0752 or by email at [krigelsford@deloitte.co.uk](mailto:krigelsford@deloitte.co.uk)

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole  
National Head of Accounting and Corporate Reporting  
Deloitte LLP

## Appendix 1

### Response to the consultation question

#### Question 1: Do you agree with the proposed amendments to the FRSSE for micro-entities? If not, why not?

Yes, we broadly agree with the proposed amendments to the FRSSE for micro-entities, although we have some specific comments on the implementation of these amendments as laid out below.

#### Definition of a micro-entity

The proposed definition of a micro-entity initially states “As defined in the Act” but then reproduces only the size criteria for qualification as a micro-entity. This may give the impression that only the size criteria need to be met to qualify, which is not the case as the Act contains additional requirements.

To address this potential source of confusion, we suggest that one of the following approaches might be taken:

1. Include the full definition in s384A and s384B of the Act in Section C Definitions.
2. Simply state “As defined by s384A and s384B of the Act” in Section C, and leave users to cross-refer to the Act itself for the detailed requirements.
3. Consistent with the existing approach to identifying ‘small’ companies in paragraph 1.1(a), remove the definition of ‘micro-entity’ from Section C entirely, instead rephrasing the first part of proposed paragraph 1.2 as follows: “Companies incorporated under companies legislation and entitled to apply the exemptions and provisions available in the legislation for micro-entities when preparing and filing its accounts with the Registrar of Companies:”.

#### Format of micro-entity requirements

The requirement of proposed paragraph 1.2(a) states that micro-entities “shall disregard all presentation and disclosure requirements of the FRSSE...except those...which are only applicable to micro-entities”. It is not always easy to identify the presentation and disclosure requirements of the FRSSE (not all are identified clearly as such) and doing so may present micro-entities with an unnecessarily complex task of reading through the entire standard to work out which requirements they can disregard.

A more user-friendly approach might be to designate those paragraphs that are applicable to micro-entities by use of a symbol or prefix. A ‘cut-down’ version of the FRSSE, including only the relevant paragraphs, would be an alternative option.

#### Transitional provisions

Proposed paragraph 1.2 prohibits micro-entities from measuring tangible fixed assets and fixed asset investments and investment properties at valuation, instead requiring the use of historical cost for such assets. This will represent a significant change for some micro-entities that wish to take advantage of the simplified regime but have previously accounted for such assets at valuation, and full retrospective application could prove onerous.

We recommend the inclusion of a transitional provision permitting entities to retain the previous carrying value of an affected asset as its ‘deemed cost’ at the date from which the micro-entities regime is

adopted. Such an option would be consistent with the transitional provisions of both FRS 15 and FRS 102.

## Appendix 2

### Drafting comments and suggestions

In reviewing the proposed amendments to the FRSSE we have the following minor drafting suggestions:

Reference	Suggested correction
Paragraph 1.2(d)	"...shall account for any investment properties in accordance with paragraphs 6.19 to <del>6.26</del> <u>6.22</u> rather than paragraphs 6.50 to 6.53."
Appendix 1: 15	"Micro-entities preparing financial statements comprising <del>of</del> only..."
Appendix 4: 37D	"As a result micro-entities will be able to prepare micro-entity accounts <u>in compliance with the FRSSE.</u> "