

For the attention of: Jenny Carter  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

30 April 2015

Dear Sir or Madam

***FRED 59 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland***

We welcome the opportunity to comment on *FRED 59 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRED 59").

In line with our response to the FRC's Consultation Document *Accounting standards for small entities - Implementation of the EU Accounting Directive* ("the Consultation") we strongly support the proposals in relation to small entities and welcome the decision to withdraw the FRSSSE and to include the requirements for small entities within FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* ("FRS 102"). We also agree with the proposal for small entities to apply the FRS 102 recognition and measurement requirements and are very pleased to see that the proposals permit early adoption.

However, in our opinion the layout and presentation of Section 1A of FRS 102 could be improved to make it clearer and easier for preparers of financial statements of small entities to apply. For example, whilst recognising the restrictions on mandatory disclosures we believe the requirement for financial statements to give a true and fair view should be given greater prominence. In our response to Question 1 we have also made some suggestions that could be considered to make paragraph 1A.14 easier to apply.

We note that FRED 59 does not propose transitional provisions, other than those that already exist in FRS 102. In our view this is the correct approach, however we believe that an additional transitional provision for non-basic financial instruments should be available as fair values may be difficult to obtain retrospectively. We have expanded upon this in our response to Question 3. As mentioned in our response to the Consultation this additional transitional relief would provide a soft landing into the FRS 102 small entity regime. It would also assist small entities that made decisions and entered into commercial transactions under previous GAAP which could have significant accounting consequences under the new framework that were unforeseen at inception of the arrangement.



Our responses to the consultation questions are set out in Appendix 1, our detailed comments on the requirements of FRS 102 1A are in Appendix 2 and our comments on any other aspects of FRED 59 are in Appendix 3.

We are delighted that when the resulting standards or amendments from EDs 58, 59 and 60 are introduced we will have a new UK GAAP that meets the accounting requirements that all entities need in the current business environment. Whilst we recognise that amendments to accord with Company Law are needed from time to time we commend the three year review cycle as the basis of future adjustments wherever possible.

We look forward to a harmonised approach for micro, small, medium and large entities from years commencing on or after 1st January 2016.

Yours faithfully

**Danielle Stewart OBE**  
**Baker Tilly Tax and Accounting Limited**



## Question 1

*Do you agree that the proposed Section 1A Small Entities adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you propose?*

We support the incorporation of the minimum disclosures within Section 1A but consider that the current approach to doing so could be improved upon to make the requirements easier for preparers of financial statements to apply.

One solution could be for the disclosures in paragraph 1A.14 to follow the order of the profit and loss account and balance sheet formats set out in the Regulations in-line with the requirement of Schedule 1.42 thereto; *“These notes must be presented in the order in which, where relevant, the items to which they relate are presented in the balance sheet and in the profit and loss account”*. An alternative approach could be to incorporate these disclosures within the appropriate sections of FRS 102. We can see no reason why the disclosure requirements could not be given in both paragraph 1A and within the individual sections of FRS 102 as this would assist preparers of accounts in understanding the disclosure requirements in relation to specific recognition and measurement requirements.

It would be helpful if references were added for the relevant schedules and paragraphs within the Regulations and the relevant paragraphs of the Companies Act 2006 (“the Act”), and if these, together with cross-references to the paragraphs within FRS 102, were presented in a tabular format rather than within the body of the text.

We have identified some differences between the regulatory requirements and the requirements set out in paragraph 1A.14 (as noted in Appendix 2). These misalignments could be avoided by reproducing the relevant wording in the Regulations and the Act rather than rewording the requirements. Clarification could still be included in 1A.14 where necessary and appropriate. For example, the wording in 1A.14 (t) that describes “off balance-sheet arrangements” as “arrangements not included in the statement of financial position”.

There are also instances where paragraph 1A.14 does not set out the requirements but directs preparers to FRS 102 disclosures (such as 1A.14 (k) and 1A.14 (r)). This is inconsistent with paragraph 1A.13 which exempts small entities from having to apply the disclosure requirements of Sections 9 to 35 of FRS 102 and could cause confusion. In our opinion it would be helpful to preparers if all the disclosure requirements for small companies were included in Section 1A.14, with the wording aligned to the requirements of the Regulations and the Act, even if this results in repetition of disclosure requirements included elsewhere in FRS 102.

In addition, we note that no reference is made to Schedule 6 to the Regulations on group accounts and how Section 1A of FRS 102 applies where a small parent entity prepares consolidated accounts. We request that this is addressed.

We recognise that, through the definition of a small entity in the Glossary to FRS 102, small LLPs can apply Section 1A but are not currently governed by the same size limits as a small company and will also have to provide any additional disclosures required by the current LLP Regulations. It would add clarity if the applicable regulations for LLPs were specifically



referred to in the scope paragraph 1A.1 to alert preparers of accounts of LLPs to ensure the conditions for use of Section 1A are met.

We are concerned that the wording of paragraph 1A.6 and 1A.10 in respect of abridged accounts may be interpreted as requiring the presentation of turnover and the disaggregation of balance sheet items, respectively, on the face of the profit and loss account and the balance sheet. This would not appear to be the intention and we suggest a rewording of these paragraphs to clarify that disclosure in the notes to the financial statements of turnover and items which are aggregated on the face of the balance sheet may be sufficient to show a true and fair view.

We recognise that some of the encouraged disclosures in paragraph 1A.15 are generic but would suggest that the FRC considers identifying guidelines for the disclosures that are encouraged but not required.

#### *Question 2*

*In developing these proposals the FRC has applied the principle that there should not be differences between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. This principle has been determined after taking account of the generally positive response to a similar proposal in the Consultation Document.*

*Do you agree with this principle? If not, why not and what alternative principle or specific exceptions to the principle would you propose?*

Yes, as set out in our response to the Consultation we believe there should be consistent recognition and measurement requirements. However, as noted in our response to Question 3, we ask the FRC to consider one transitional provision to assist small entities with the application of fair value measurement to non-basic financial instruments.

#### *Question 3*

*Do you agree that the transitional provisions in FRS 102 are sufficient for small entities, or have you identified any further areas where transitional provisions should be considered? If so, please provide details.*

As noted in our covering letter, we have identified just one area where an additional transitional provision would relieve a considerable burden from small entities.

Small entities may find it difficult to obtain fair values for non-basic financial instruments retrospectively, given that the requirements of Section 1A of FRS 102 will be finalised after many entities have passed their mandatory date of transition. Whereas larger entities would have been required under Company Law to disclose fair values of certain financial instruments that requirement does not apply to small entities.

We would welcome a transitional provision that permits a small entity to apply the fair value requirements of Section 12 *Other Financial Instruments Issues* from the start of the first accounting period when FRS 102 recognition and measurement is applied, for example from 1 January 2016 for a 31 December 2016 year-end. To avoid any potentially significant impact on the comparative statement of financial performance, we would suggest that the difference between any carrying amount recognised under previous GAAP and the fair value initially recognised is presented entirely within equity.



This would address any difficulties in obtaining retrospective fair values but would result in fair value measurement at the first reporting date and in the comparative statement of financial position. We recognise that the comparative statement of financial performance would not include a fair value adjustment but this incomparability would only arise in the first financial statements prepared in accordance with Section 1A of FRS 102.

*Question 4*

*Do you agree with the other amendments proposed to FRS 102 for compliance with company law? If not, why not?*

In our opinion as few changes as possible should be made to FRS 102 outside the stated three year review programme already set out by the FRC in order to give preparers a stable financial reporting platform. However, we recognise some amendments are necessary to address any conflicts with Company Law.

We would welcome an explanation in the Accounting Council's advice for the deletion of FRS 102, paragraph 21.17, which allows some exemption in respect of seriously prejudicial disclosures concerning disputes with other parties. In developing FRS 102 the FRC (and prior to that the ASB) aimed to develop "financial reporting standards that have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective". We observe that paragraph 21.17 of FRS 102 is consistent with paragraph 92 of IAS 37.

*Question 5*

*This FRED is accompanied by a Consultation Stage Impact Assessment. Do you have any comments on the costs or benefits discussed in that assessment?*

We have no comments on the costs or benefits discussed in the Impact Assessment.



### Detailed comments on the requirements for small entities

1A.7/1A.8	Set out the minimum line items required when a small entity applies paragraph 1B of Schedule 1 to the Regulations. These go beyond the minimum line items that must be disclosed under the Regulations, which only permit adaptation of the balance sheet to distinguish between current and non-current items in a different way.
1A.14 (a)	Is cross referenced to FRS 102 8.6 which requires disclosure of judgements made in application of the entity's accounting policies. This cross reference is not given as an example and therefore it appears this disclosure is being mandated even though it is not required by the Regulations. We suggest this is clarified.
1A.14 (b)	Requires an explanation of the useful life for all intangible assets (including goodwill), but Sch1.22 (4) only requires this explanation if the useful life cannot be estimated reliably as it states:- <i>(2) Where in exceptional cases the useful life of intangible assets cannot be reliably estimated, such assets must be written off over a period chosen by the directors of the company.</i> <i>(3) The period referred to in sub-paragraph (2) must not exceed ten years.</i> <i>(4) There must be disclosed in a note to the accounts the period referred to in subparagraph (2) and the reasons for choosing that period.</i> We recommend aligning the disclosure requirement as those in 1A.14 (b) go beyond the requirements of the Regulations.
1A.14 (c)	Requires disclosure of the reasons for showing development costs as an asset and that the carrying amount is not a realised loss. Sch1.21 (2) also requires disclosure of the period of write-off and requires this disclosure and the reason for capitalising development costs to be given in the note on accounting policies. We recommend inclusion of the aligned disclosure requirements within FRS 102 1A.14 (a) which covers the accounting policies adopted.
1A.14 (d)-(f)	Require disclosures in respect of changes in accounting policy, correction of errors and changes in classification and presentation. The detailed requirements of FRS 102 appear to go beyond the requirements of the Regulations. Sch 1.2 (2) requires disclosure of the particulars of and reasons for the change when the balance sheet format is amended. Sch 1.7 (2) requires disclosure of the particulars of the non-comparability and any adjustments when corresponding amounts are not comparable. We suggest using the wording from the legal requirements with further guidance or examples for changes in accounting policy, changes in presentation or classification and material prior period errors.
1A.14 (h) (ii)	Requires disclosure of the historic cost carrying amount of revalued fixed assets. Sch 1.34 (3) requires the aggregate cost and aggregate cumulative depreciation or diminution in value determined under the historical cost accounting rules, not the net carrying amount. We recommend the wording is aligned with the Regulations.
1A.14 (i)	Sch1.49 (a) only requires disclosure of the <i>years (in so far as they are known to the directors)</i> when assets were valued. We suggest this exemption is reflected in FRS 102.
1A.14 (j) (i)	Is cross referenced to FRS 102 13.4A but that paragraph is in relation to inventories held for distribution at no or nominal consideration and is not relevant to assets held at fair value. We suggest removing the cross reference.



1A.14 (j)(iv)	<p>Requiring a table of movements in equity may be interpreted as being broader than the requirement in Sch1.51 (3) (a) to show, for the fair value reserve only, the opening, closing and amounts transferred to or from the reserve and the source and application of the amounts transferred.</p> <p>We recommend clarification is added that this disclosure is only required for the fair value reserve.</p>
1A.14 (l)	<p>We recommend the wording is amended to make it clear that commitments on behalf of or for the benefit of any parent, subsidiary or fellow subsidiary undertaking must be disclosed separately and that separate disclosure is also required for commitments on behalf of or for the benefit of undertakings in which the small entity has a participating interest.</p> <p>This could be done by aligning the wording with that in Sch 1.57.</p>
1A.14 (m)	<p>We recommend that this paragraph includes the specific disclosure requirements for guarantees in CA06s.413 (4), i.e.:-</p> <p><i>(a) its main terms,</i></p> <p><i>(b) the amount of the maximum liability that may be incurred by the company (or its subsidiary), and</i></p> <p><i>(c) any amount paid and any liability incurred by the company (or its subsidiary) for the purpose of fulfilling the guarantee (including any loss incurred by reason of enforcement of the guarantee).</i></p>
1A.14 (o)	<p>We suggest the term “amounts owed” is amended to “items shown under “creditors”” per Sch 1.55 (1) and (2).</p>
1A.14 (q)	<p>Aggregation of additions, disposals and transfers in (ii) does not appear to comply with Sch 1.48 (1) (b) which shows these separately in (ii), (iii) &amp; (iv). We recommend the wording is aligned with Sch 1.48 (1) (b).</p>
1A.14 (q)	<p>Sch 1.48 (1) (b) also requires the effect of changes in market value or current cost to be included in the amounts disclosed so we recommend an appropriate amendment is made to incorporate this. The information required by these disclosures is generally given in tabular form so changes in fair value or valuation will be required for the disclosure to make sense.</p>
1A.14(q)	<p>Aggregation of changes in provisions (depreciation/impairment) for additions, disposals and transfers in (v) does not appear to comply with Sch 1.48 (3) which shows amounts in respect of disposals separately in (c) from other adjustments in (d).</p> <p>We recommend the wording is aligned with Sch1 48 (3).</p>
1A.14 (q)	<p>Requires disclosure of borrowing costs capitalised during the period but Sch 1.27 (3) (b) only requires disclosure of the cumulative amount of capitalised borrowing costs. We recommend the requirement in 1A.14 (q) is aligned with the Sch 1 (27) (3) (b).</p>
1A14 (r)	<p>Requires disclosure of the line item in profit or loss or other comprehensive income where impairment losses and reversals are included but Sch 1.19 (3) and Sch1.20 (2) only require impairment losses and reversal of impairment losses that are not shown in the profit and loss account to be disclosed in a note to the accounts.</p>
1A.14 (s)	<p>Could be read as requiring parent entity disclosures for all small entities that are subsidiaries, but the requirement of Schedule 1.65 only applies when the small entity is included in consolidated accounts. We suggest amending the wording to “When the small entity is a subsidiary included in consolidated accounts, the name....”etc</p>
1A.14 (s)	<p>Sch1.65(c) also requires disclosure of the address of the principal place of</p>



	business of the parent undertaking if it is unincorporated. This may be rare but should be included in 1A.14.
1A.14 (t)	We suggest revising the wording to “Where the small entity has off-balance sheet arrangements, the nature and business purposes of such arrangements provided that the risks.... etc” to assist preparers of financial statements.
1A.14 (v)	Requires disclosure in (i) for owners holding significant influence whereas Sch 1.66 (1) (a) requires disclosure for owners holding a participating interest.  We also recommend the wording is aligned with Sch1.66 (1) and that a definition of participating influence is included in the FRS 102 Glossary.

#### **Legal requirements omitted from FRS 102 1A .14**

Sch 1.4 (2)	Requires disclosure of the individual amounts where the directors combine items to which Arabic numbers are given.
Sch 1.25 (2) (b)	Requires disclosures in respect of “excess of money owed”, it may be rare but the requirement should be included in FRS 102 for completeness.
Sch 1.34 (2)	Departures from the historic cost rules to use the alternative accounting rules and the basis of valuations adopted in measuring assets under the alternative accounting rules must be disclosed in the note on accounting policies.
Sch 1.36	Permits fair value measurement to be used for financial instruments. The disclosures required in relation to these financial instruments are set out in paragraph 51. These apply regardless of whether the fair value changes are recognised in profit or loss or equity but FRS 102 1A.14 (j) and (k) only require these disclosures for financial instruments that are measured at fair value through profit or loss. Some or all of the fair value movements on derivative financial instruments that are hedging instruments in cash flow hedges are recognised in OCI and therefore the disclosures required by law for these items would not be required by 1A.14 as currently drafted.





### Detailed comments on other amendments to FRS 102

3.1A	Small entities are exempt from applying 3.18 and 3.19 by 1A.2. These paragraph references should be included in the list of paragraphs that a small entity is not required to comply with.
9.3 (b)&(c)	We recommend the consolidation exemptions are aligned with CA06 s400 (b) to say where the allotted shares held are 90% or more.
9.3 (e)	Insert 'and' so as to read 'The parent <b>and</b> the group headed by it qualify as small...'
27.29	We recommend adding "and only if" so this reads; "...if <b>and only if</b> the reasons for the impairment loss have ceased to apply .." in-line with the wording deleted from 27.28.
Glossary	We recommend the definition of non-current assets is amended to align with that in IAS 1.66 and (d) be "... <b>and</b> the assets are restricted ..." rather than ... " <b>unless</b> the assets are restricted ..."
Glossary	We consider a definition of non-current liabilities is also required since Company Law permits adaptation of the balance sheet formats to distinguish between current and non-current in a different way.
Glossary	We consider a definition of current liabilities is also required.