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Dear Jenny

**RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED
ACCOUNTANTS IRELAND**

Consultation document – Accounting Standards for Small Entities

The Accounting Committee (AC) of Chartered Accountants Ireland welcomes the opportunity to comment on the above consultation document on the FRC's financial reporting framework to implement the EU Accounting Directive. The responses to the individual questions posed in the consultation document included in the appendix to this letter.

Should you wish to discuss any of the views expressed, please feel free to contact me.

Yours sincerely



Mark Kenny
Secretary to the Accounting Committee

APPENDIX

Micro-entities

Question 1

Do you agree with the proposal to develop a new accounting standard, the Financial Reporting Standard for Micro-Entities (FRSME), for entities taking advantage of the micro-entities regime (see paragraph 2.4)? If not, why not?

AC agrees with the above proposal. The FRSME should aim to be 'stand-alone' and minimise the need to refer to FRS 102.

AC understands that the vast majority of micro-entities are unlikely to outgrow the size thresholds and do not plan to do so.

It might therefore be helpful for the introduction to the FRSME to state that the standard is intended for micro-entities that do not expect to grow beyond the thresholds, while recognising that FRC cannot prohibit the micro regime to companies that qualify for it.

For example, early-stage growth companies might have no turnover and limited recognised assets, while having substantial expenses and liabilities. AC considers it questionable whether the FRSME would be the most appropriate accounting framework for such companies, rather than the more comprehensive guidance in FRS 102.

Question 2

Do you agree with the proposed recognition and measurement simplifications that are being considered for the FRSME (see paragraph 2.6 (b))? If not, why not? Are there any further areas where you consider simplifications could be proposed for micro-entities?

AC agrees with the proposals in paragraph 2.6(b). AC notes that 2.6b says "there is no requirement" to account for deferred tax or defined benefit pensions. AC interprets this as meaning that a micro does have the option to account for these, though this is not entirely clear. AC considers that, in order to minimise diversity in practice, micros that choose to account for these matters should be required to adopt the accounting specified in FRS 102, rather than leaving the accounting unspecified.

In addition, AC suggests the following measurement simplifications:

1. Permit the use of a contracted rate of exchange in determining the cost of fixed assets.
2. Recognise all research and development costs as an expense.

3. Permit the use of operating lease accounting for all leases; having regard to the requirement to disclose lease commitments in any case.
4. Foreign branches are likely to be rare for micro-entities and could be dealt with by cross reference to FRS 102, in addition to items in 2.6(vi). The FRC may also wish to consider the relevance of the guidance in Section 9 'Consolidated and Separate Financial Statements' to micro-entities.
5. Qualify any reference to qualitative characteristics of information in financial statements in FRSME.

In relation to the requirement to use the effective interest rate method to determine finance costs, AC considers that micro-entity preparers are unlikely to have had recourse to that in the past, and indeed that, in many cases there would be very little difference between EIR and accruing the coupon rate. Accordingly, it might reduce the burden on micro-entity preparers if the FRSME were to explain when the EIR method would not need to be rigorously applied.

Similarly, in relation to functional currency, AC agrees with the requirements and the distinction between functional and presentation currency. However, recognising the SSAP 20 background from which most micro-entities are coming, AC suggests that it would be helpful to micro-entity preparers for the FRSME to explain that, in most cases, functional and presentation are likely to be the same, in which case the rules on translating into presentation currency are not relevant.

Small entities

Question 3

The accounting standard that is applicable to small entities (not just small companies) (i.e. Currently the FRSSE) is being revised following changes to company law. Company law, which will limit the disclosures that can be made mandatory, may not apply to entities that are not companies. Do you agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria, not just companies? This will have the effect of reducing the number of mandatory disclosures for all small entities, not just small companies (see paragraph 3.11). If not, why not?

AC agrees with the proposal that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria (not just small companies).

Question 4

Do you agree that the FRSSE should be withdrawn and small entities should be brought within the scope of FRS 102, so that they apply recognition and measurement requirements that are consistent with larger entities, but with fewer mandatory disclosures (see paragraph 3.15)? If not, are there any areas where you consider there should be recognition and measurement differences for small entities and why?

AC agrees that the FRSSE should be withdrawn and accounting for small entities should be included in FRS 102, as a separate 'stand-alone' section with fewer disclosures than FRS 102.

This raises the practical issue of how precisely this is to be implemented, e.g. by a short statement that small entities may ignore the disclosures in FRS 102, or by a full section in FRS 102 that would be a one-stop shop for small entities in relation to recognition, measurement and required disclosures for them. In this regard, AC strongly recommends that FRC engage substantially with small entities in order to establish which model would be preferable.

AC addressed the matter of whether accounting for financial instruments could or should be further simplified for small entities. AC had mixed views on this matter with some members considering the accounting set out in FRS 102 should be simplified for small entities, while others considered that the existence of yet another version financial instrument accounting, in addition to both FRS 102 and FRSME (as well as IFRS), would be confusing.

Residential management companies

Question 5

FRED 50 Draft FRC Abstract 1 – Residential Management Companies' Financial Statements was issued in August 2013. After considering the comments received, the FRC publicised its intention to roll this project into the work required to implement the new EU Accounting Directive. Do you agree, in principle, with adding a new sub-section to Section 34 Specialised Activities of FRS 102 to address the principles of accounting by residential management companies (RMC's) (see paragraph 3.27)? If not, do you consider this necessary, or would you address the issue in an alternative way?

AC considers that the accounting for RMCs is the type of issue that would more appropriately be dealt with by way of a SORP to amplify the mainstream accounting requirements of FRS 102. If this were done, neither a separate FRC FRS nor a separate section in FRS 102 should be required. AC understands that in very many cases, the RMC is a principal and should account accordingly, but the legal and commercial arrangements are unlikely to be identical in every case, and that the RMC may well be an agent in some cases, with different accounting consequences.

FRS 102

Question 6

FRS 102 does not currently include all of the disclosures specified in company law. Other than in relation to the new small companies' regime within FRS 102, it is not proposed that this will change. Do you agree that FRS 102 should not include all the disclosure requirements for medium and large companies from company law (see paragraph 4.6)? If not, why not?

AC agrees that FRS 102 should not include all the disclosure requirements for medium and large companies from company law.

FRS 101

Question 7

Do you agree that, if UK and Irish company law is sufficiently flexible, FRS 101 should be amended to permit the application of the presentation requirements of IAS 1 Presentation of Financial Statements, rather than the formats of the profit and loss account and balance sheet that are otherwise specified in company law (See paragraph 5.4)? Do you agree that this will increase efficiency of financial reporting within groups? If not, why not? Do you foresee any downsides to this approach?

AC agrees that, if company law allows, FRS 101 should be amended to permit the application of the presentation requirements of IAS 1.

Paragraph 3.10

AC notes that small companies' financial statements with reduced disclosures are required to show a true and fair view. This will place an onus on directors, especially where audit exemption is applied.

Recognising the Arden/Moore legal opinions in relation to the true and fair view and accounting standards, perhaps there is a case for FRC seeking legal opinion in relation to the true and fair view in the context of the amended EU Directive and FRS 102. AC notes that at least one published response to the FRC consultation has suggested that the Government should obtain legal advice on this the matter.

For many of the mandated disclosures set out in the Directive, a cross reference could be given in the small entity section of FRS 102 to the equivalent section of the body of FRS 102 to provide an indication of the detailed disclosures that should be provided.

In order to help small entities to identify those additional disclosures that might be required to show a true and fair view, FRC could suggest, but not mandate, that that regard may be had to FRS 102 for disclosure guidance.