

**Comments on FRED 59**  
**From the Farming and Rural Business Special Interest Group**

**Question 1**

Nothing has been identified which suggests that the draft FRS 102 does not accurately reflect the new small companies regime sent out in the company law. It is agreed that the disclosure requirements for small entities are clear.

**Question 2**

This principal is agreed.

**Question 3**

The transition provisions in FRS 102 are generally considered sufficient for small entities but difficulties will arise for agricultural businesses with the recognition of intangibles in the first set of accounts that are prepared under FRS 102.

Most agricultural businesses will receive a significant proportion of their annual income in the form of payments under the Basic Payments Scheme (BPS) which replaces the Single Payments Scheme (SPS) from 1 January 2015. As a pre requisite for claiming BPS payments the entity must hold BPS entitlements. The rules for obtaining BPS entitlements vary according to which UK country the land being farmed is located in. For entities farming in England their SPS entitlements automatically become BPS entitlements on 1 January 2015 but in Wales, Scotland and Northern Ireland farmers have to apply for new BPS entitlements as part of the 2015 BPS payments application. There are further complications in that farmers in all countries of the UK can apply for additional BPS entitlements (e.g. for new and young farmers) and that excess BPS entitlements received in exchange for SPS entitlements for land farmed in England will be lost if the entity does not hold sufficient eligible land.

As entities will not pay for BPS entitlements they are awarded for 2015 this raises the question of how these will be brought into the first set of accounts prepared under FRS 102. The position in the FRS 102 appears to be that:-

1. Entities are required to bring in BPS entitlements at fair value on the date that these are awarded under FRS 102 if the date these are awarded during 2015 falls within the first set of accounts that the entity prepares under FRS 102 as:-
  - a. The BPS entitlements are brought into the accounts at fair value if they are received in exchange for SPS entitlements for land located in England under 18.13 of FRS 102 which covers the position where intangibles other than goodwill are received in exchange for other assets.
  - b. The BPS entitlements are brought into the accounts at fair value on the date they are awarded for land located outside England and for the additional entitlements awarded for new and young farmers. 18.12 of FRS 102 requires intangibles to be

brought into the accounts at fair value were these are received by way of a government grant and BPS entitlements are a form of government grant.

2. If entities acquire BPS entitlements before the start of the first period covered by accounts prepared under FRS 102 these need to be reflected in the opening position with:-
  - a. Purchased BPS entitlements recognised at carrying value in the previous set of accounts of amortised original cost but with the entity having the ability to replace this with fair value under 35.10ciii FRS 102.
  - b. BPS entitlements which have been acquired for nil cost potentially recognised at fair value on date of award or exchange for SPS entitlements.

This would result in significant differences in the balance sheets of micro entities reporting under FRS 105 who recognise the BPS entitlements at their nil cost and similar sized entities reporting under FRS 102 (whether this be by choice or as they are an unincorporated entity if reporting under FRS 102 becomes mandatory for them when FRS 102 becomes UK GAAP).

This could also leave agricultural businesses with substantial tax costs arising from their adoption of FRS 102. Where BPS entitlements are recognised in the accounts at fair value under 18.12 FRS 102 (as the fair value of an asset received by way of government grant) the grant 'income' is brought into income on a systematic basis over the expected useful life of the BPS entitlements under 24.5F FRS 102. The grant income received for capital assets is not normally a trading receipt for tax purposes with this reducing the cost of the asset for tax but this is not the position for incorporated entities where the asset acquired is an intangible. S852 to s853 CTA 2009 make it clear that grant income received in relation to an intangible asset is taxable income when this is recognised as income in the entities accounts. In addition there could be a tax mismatch for unincorporated businesses with the initial uplift taxable as income should HMRC regard this as a revenue grant but with the subsequent amortisation not tax deductible.

The SIG would prefer to see this catered for in the transitional provisions with BPS entitlements awarded or received in exchange for SPS entitlements during the 2015 calendar year brought into the first set of accounts prepared under FRS 102 at the carrying value of the SPS entitlements that they effectively replace under the CAP reforms that are taking place this year. This would be similar to the requirement that there be no adjustment to the carrying value for goodwill in relation to past business combinations (FRS 102 35.10 a ii).

#### **Question 4**

## Question 5