

CONSULTATION

FINANCIAL REPORTING COUNCIL

ACCOUNTING STANDARDS FOR SMALL ENTITIES – IMPLEMENTATION OF THE EU ACCOUNTING DIRECTIVE

INTRODUCTION

These comments are submitted by the Association of International Accountants (AIA).

ABOUT AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and from conception has promoted the concept of 'international accounting' to create a global network of accountants in over 85 countries worldwide.

AIA is recognised by the UK government as a recognised qualifying body for statutory auditors under the companies act 2006, across the European Union under the mutual recognition of professional qualifications directive and as a prescribed body under the companies (auditing and accounting) act 2003 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2007.

AIA promotes and supports the advancement of the accountancy profession both in the UK and internationally. The AIA exams are based on international financial reporting and international auditing standards and are complimented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic accounting.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

AIA RESPONSE

SUMMARY

AIA is pleased to respond to the FRC's request for comment on proposals on accounting standards which will apply to small and micro-entities following the implementation in the UK of the EU Accounting Directive. AIA have responded to the specific questions laid down in the Consultation Document and we also have other observations which the FRC may wish to consider in the development of their Exposure Drafts.

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?

AIA supports the proposal to develop a new accounting standard specifically for micro-entities. In light of the significantly reduced levels of disclosures pertaining to micro-entity financial statements, AIA believes that a separate standard outlining the financial reporting requirements for micro-entities would be much clearer and more efficient than incorporating the requirements within FRS 102.

AIA has questioned the appropriateness of the name of the standard which will inevitably be coined the 'FRSME'. Such an abbreviated term was attributed to the previous UK GAAP when it was titled *The Financial Reporting Standard for Mid-Sized Entities* and hence it may be more appropriate to rename the standard the *Financial Reporting Standard for Micro-Companies* so as to avoid any potential confusion by preparers of financial statements.

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 SIMPLIFICATION COULD BE PROPOSED FOR MICRO-ENTITIES?

AIA agrees with the proposed simplifications on the basis that relatively few micro-entities will have derivative financial instruments and defined benefit pension schemes in operation. Deferred tax balances are also likely to be immaterial in the majority of cases and hence it makes sense to remove the requirement for micro-entities to calculate deferred tax balances at each reporting date.

AIA also believes that the proposed clarification that a derivative financial instrument which becomes onerous should be recognised as a liability will offer clarity to users of the proposed standard.

QUESTION 3

THE ACCOUNTING STANDARD THAT IS APPLICABLE TO SMALL ENTITIES (NOT JUST SMALL COMPANIES) (IE CURRENTLY THE FRSSSE) 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?

AIA agrees that the accounting standard for small entities should also apply to all entities meeting the relevant criteria, not just companies. AIA does not agree with the “minimalist” approach to disclosure requirements for small entities; although the AIA also does not believe in a two-tier system whereby a small company would apply mandatory and limited disclosures, whilst other small entities would not do the same as it is difficult to see how this would work in practice.

QUESTION 4

DO YOU AGREE THAT THE FRSSSE 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?

AIA is supportive of the FRC’s planned withdrawal of the FRSSSE. Withdrawing the FRSSSE and moving small entities under the scope of FRS 102 will achieve consistency across many companies in terms of recognition and measurement and eliminate accounting inconsistencies. AIA have noted that there are some considerably different accounting treatments within the FRSSSE and FRS 102 and moving companies which do not choose to apply the proposed FRSME, or which would otherwise not qualify to adopt the proposed FRSME, under FRS 102 would result in less volatility in financial performance and financial position as the entity grows and moves under the scope of full FRS 102 because the accounting treatment would, in the majority of cases, be the same under FRS 102 for smaller entities versus full FRS 102.

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 UNNECESSARY, OR WOULD YOU ADDRESS THE ISSUE IN AN ALTERNATIVE WAY?

AIA consider the inclusion of accounting by RMC’s in a sub-section of Section 34 to be a sensible approach.

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?

AIA strongly believe that there is no need for FRS 102 to incorporate company law requirements. FRS 102 is a well-structured standard which, in the opinion of the AIA, is much more user-friendly than previous UK GAAP which became over-voluminous and complex. The inclusion of company law requirements in FRS 102 would not add any benefit to the standard and would merely result in the standard becoming significantly longer than is necessary.

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?

AIA agrees that FRS 101 should be amended so as to allow the use of IFRS formats. This would almost certainly have the advantage of allowing consistency across the board where group financial reporting is concerned. FRS 101 is essentially a modified version of IFRS and amending FRS 101 to allow the use of IFRS formats would also remove the inherent difficulties in the application of company law requirements which currently require Companies Act accounts to be prepared.

FURTHER INFORMATION

The above replies represent our comments upon this consultation document. We hope that our comments will be helpful and seen as constructive. AIA will be pleased to learn of feedback, and to assist further in this discussion process if requested.

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