

7-11 Melville Street, Edinburgh EH3 7PE  
t. 0131 220 2203 f. 0131 220 1080 w. jcca.co.uk  
dx. ED14 Edinburgh 1

Jenny Carter  
Director of UK Accounting Standards  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
LONDON  
EC2Y 5AS



Our ref: DMcB/CLJ

6 November 2014

Dear Ms Carter,

**Consultation Document: *Accounting standards for small entities – Implementation of the EU Accounting Directive***

We welcome the opportunity to comment on the consultation document regarding the future of accounting standards for small entities.

We are generally supportive of the proposals for accounting standards for small entities, as a generally consistent framework enables businesses to grow, without worrying about the accounting implications.

With a proposed effective date of accounting periods commencing on or after 1 January 2016, the date of transition for FRSSE users with a December year end is almost upon us. We urge the completion of the project as soon as practicable to minimise the costs to business.

Our responses to the consultation questions are given in Appendix 1.

If you wish to discuss any matters raised in this letter, please contact David McBain.

Yours sincerely,

Johnston Carmichael LLP

## **Appendix 1**

### **Response to Consultation Document – Accounting standards for small entities – Implementation of EU Accounting Directive**

#### **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?**

We agree with the proposal to develop a new accounting standard for entities taking advantage of the micro-entities regime.

#### **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?**

We broadly agree with the proposed recognition and measurement simplifications that are being considered for the FRSME.

We believe a further simplification that could be made to the FRSME is the recognition and treatment of loans received at zero or below market rate of interest. It is common practice for businesses of this size to obtain an interest-free or below market interest rate loan from related parties, as finance from other sources can be scarce. We believe the standard should specify that this type of loan is measured at the funds received rather than amortised cost. The costs of trying to ascertain an equivalent market rate of interest, enabling the loan to be included at its amortised cost, outweighs the benefits of its recognition.

Financial statements prepared using the micro-entities regulations are deemed to be true and fair. Should the directors of the business wish to include further detail or information, we believe that the FRSME should direct the preparer to FRS 102 as a source of helpful guidance.



### **Question 3**

**The accounting standard that is applicable to small entities (not just small companies) (ie 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?**

We agree that the accounting standard for small entities should continue to apply to entities meeting the relevant size criteria. Without this, comparability of businesses with different corporate structures is reduced.

### **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?**

We agree that the FRSSE should be withdrawn and small entities brought within the scope of FRS 102. However, as a consequence of the definition of a small company encompassing a very wide range of businesses, from simple to fairly complex, we believe that the recognition and measurement included within FRS 102 should be re-considered for the simpler businesses which meet the small company criteria.

The requirement to recognise loans provided at zero or below market rate of interest at amortised cost should be re-assessed. It is common practice for entities at the lower end of the small company criteria to have received zero or below market rate of interest loans from related parties. The related parties consider the loan as a form of investment in the business. The recognition of this loan in the small entity at amortised cost does not represent the substance of the transaction.

For small businesses, with a limited number of transactions outside their functional currency, we believe the costs of obtaining the fair value of their one or two foreign currency options/contracts which straddle the year end outweigh the benefits of including this information. A better option, for the less sophisticated user of foreign exchange contracts, would be to allow the use of the contracted rate for the associated transactions. A narrative disclosure, explaining the use of contracted rates, would provide the users of the financial statements with sufficient information.

**Question 5**

**FRED 50 Draft 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 (RCMs) (see paragraph 3.27)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?**

Residential management companies do not exist in Scotland. Consequently we do not comment on this question.

**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?**

We agree with the proposal.

**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?**

We agree that, if possible, FRS 101 should be amended to permit the application of IAS 1 disclosure requirements. Efficiency savings will be made as many group management accounting systems are prepared in IAS 1 format. The “stewardship” function that the financial statements support is not enhanced by adopting company law formats.