



Response to FRC Consultation Document:  
Accounting Standards for small entities -  
Implementation of the EU Accounting Directive

30 November 2014

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## INTRODUCTION

ICAS welcomes the opportunity to comment on the FRC Consultation Document: Accounting standards for small entities – implementation of the EU Accounting Directive.

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Accounting Standards Committee has considered the Consultation Document and I am pleased to forward their comments.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy.

## RESPONSE TO THE CONSULTATION QUESTIONS

### 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?

#### Response:

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?

#### Response:

The proposed recognition and measurement simplifications being considered for the FRSME are appropriate and consistent with the micro-entities regulations. We believe the FRC will need to develop guidance on determining when a derivative financial instrument has become onerous.

### 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?

#### Response:

We agree that the new accounting standard applicable to small entities (i.e. FRS 102 with limited mandatory disclosures) should apply to all entities meeting the relevant criteria, not just companies. It remains important for other small entities to be able to access a simplified financial reporting standard in order to meet the FRC's objective of enabling users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. We agree with the FRC's reasoning that to include two different sets of

disclosures – one for small companies, and one for other small entities, could create confusion and therefore is not desirable.

While we agree with the principle of making concessions available to small entities generally, we believe that the 13 notes likely to be specified will not be sufficient for charities, including charitable companies, for example, due to the extent of disclosures which are currently required around their reserves.

From 1 January 2015, charities in Scotland and in England and Wales, will be required by charity law to comply with one of two new SORPs (where they are not permitted or choose not to prepare receipts and payments accounts). SORP compliance is not currently mandatory under charity law in Northern Ireland where a new regime of charity law and regulation is still bedding in.

It is important that the FRC and BIS take into account the additional statutory requirements charities must comply with as changes are made to accounting frameworks as a direct result or as a consequence of the new Accounting Directive.

The Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for England & Wales are jointly responsible for issuing the Charities SORP(s) and the Scottish Government and the Cabinet Office are responsible for Accounting Regulations made under charity law. We recommend that the FRC engages with these interested parties before finalising any plans to replace the FRSE with new requirements for small entities. The vast majority of UK charities preparing true and fair accounts are currently eligible to use the FRSE so this is a significant issue for the sector.

#### **Question 4**

Do you agree that the FRSE 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?

#### **Response:**

We agree with the FRC's assessment that FRSE should be withdrawn and small entities brought within the scope of FRS 102. We believe that the financial reporting landscape in the UK has changed with the introduction of FRS 102 and the micro-entity regime, such that there is no longer a role for a separate small entity standard, which would simply over-complicate the financial reporting structure.

It is therefore appropriate that small companies are brought within the scope of FRS 102 with a separate section on presentation and disclosure. As we have noted in our response to BIS on the implementation of the accounting directive, we do not agree with the proposal that small companies should be limited to only 13 notes to their accounts. We share the FRC's concern that this places a greater onus on directors of companies to determine whether their accounts show a true and fair view. This is particularly problematic in light of the fact that the implementation of FRS 102 will result in areas of more complex recognition and measurement in comparison with the FRSE. In our view this makes it more likely that a true and fair view will not be given by the 13 mandatory notes. We consider that it is imperative that the FRC work with BIS to determine how to address this concern, and to consider whether it is possible for the FRC to issue guidance on the types of disclosure a small company may need to provide.

#### **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 subsection to Section 34 Specialised Activities of FRS 102 to address the principles of accounting by residential management companies (RMCs) (see paragraph 3.27)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?

**Response:**

We do not support the proposal to add a new subsection to Section 34 of FRS 102 residential management companies (RMCs). This is a very specific issue that could be dealt with via a separate guidance document issued by the FRC.

**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?

**Response:**

We agree that FRS 102 should not include all the disclosure requirements for medium and large companies from company law. We do not favour making any more amendments to FRS 102 than are strictly necessary, and as FRS 102 is applicable to many non-company entities, including company law requirements could add unnecessary complexity.

**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?

**Response:**

Yes we agree that, if it is feasible, FRS 101 should be amended to allow compliance with IFRS financial statement formats. In our response to BIS, we supported the introduction of greater flexibility into the company law accounts formats. We believe this will result in greater efficiency of financial reporting within groups.