The Chartered Institute of Public Finance & Accountancy

# FRC consultation on accounting standards for small entities

# Consultation response

**28 November 2014**

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, accountancy firms, public service organisations, charities and social enterprises and other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services and public benefit organisations, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for accountants working in public benefit organisations as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public service providers around the world to advance public finance and support better public services.

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**General Comment**

CIPFA welcomes the opportunity to respond to the FRC consultation on accounting standards for small entities. This response focuses on the questions included in the consultation document.

In general, CIPFA welcomes initiatives aimed at reducing 'red tape' for small entities including the many social enterprises that meet the criteria for classification as micro or small entities. The consultation questions were circulated to members of CIPFA's Charities and Social Enterprises Panel and this response is informed by their comments and discussions.

While there is genuine concern over where exactly the balance lies in regard to simpler reporting and effective and informative reporting, we recognise that this is an ongoing and dynamic process and that the entities themselves have a role to play in deciding on their options, within the parameters set by requirements, for reporting to their stakeholders. As such we support a flexible approach while understanding that financial reporting must continue to develop and respond to stakeholder demand for useful information on which to base their decisions and actions.

**Responses to questions**

**Question 1 – Re: New micro-entity standard (FRSME)**
**Micro-entities are described in paragraph 2.1. The turnover limit is £632,000.**

**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)?**

Yes. We welcome the approach being taken, with a proposed FRSME based on recognition and measurement requirements of FRS 102. We also recognise the restrictions imposed by the legislation but believe the suggested approach does go some way in reducing the accounting changes that an entity would face as it grows.

**Question 2 – Re: Recognition and measurement simplifications for FRSME**
**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?**

Yes we agree with the proposed recognition and measurement simplifications being considered for the FRSME and we don't have any further suggestions of other simplifications.

**Question 3 – Re: Small entities**
**Small entities are described in paragraphs 3.1 and 3.2. The new turnover limit is proposed to be £10.2million.**

**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?**

Yes. We agree that the accounting standard applicable to small entities should continue to be applicable to all entities meeting the relevant criteria, not just companies. This approach will avoid any confusion likely to arise if a wider variety of different legal forms of small entities followed different disclosure requirements.

**Question 4 – Re: Withdrawal of FRSSE and adoption of FRS 102 with fewer disclosures**

**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?**

Yes. We welcome the proposal to bring small companies within the scope of FRS 102 and the inclusion of a new section in FRS 102 setting out the framework and presentation and disclosure requirements for small entities. This is a sensible approach that underlines a consistent approach with regard to recognition and measurement requirements, while allowing for the limited disclosures applicable to small companies.

**Question 5 – Re: Accounting by Residential Management Companies**

**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?**

Yes. We 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.

**Question 6 – Re: FRS 102 and whether it shouldn't/should include all disclosures specified in company law**

**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)?**

Yes. We agree that it is not necessary for FRS 102 to include all the disclosure requirements for medium and large companies from company law.

**Question 7 – Re: FRS 101 alignment with IAS 1 presentation requirements**
**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?**

Yes. We agree that, assuming UK and Irish company law proves to be sufficiently flexible, FRS 101 should be amended to permit application of the presentation requirements of IAS 1. The benefits arising for those stakeholders preparing financial statements within groups appears to merit this action.