

Our ref: NATS/DW
Your ref: CD/Small



BAKER TILLY

25 Farringdon Street
London
EC4A 4AB
United Kingdom

T: +44 (0)20 3201 8000
F: +44 (0)20 3201 8001

www.bakertilly.co.uk

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

donna.wilcox@bakertilly.co.uk

28 November 2014

For the attention of Jenny Carter

Dear Sirs

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

We welcome the opportunity to comment on the FRC's Consultation Document "Accounting standards for small entities – Implementation of the EU Accounting Directive ("the Consultation").

Consistent with our previous responses to consultations, we support the proposals in relation to small and micro entities. We do however, consider that some accounting policy options available under FRS 102 should be maintained for micro-entities.

We also consider certain transition exemptions should be available for small entities in order to provide a soft landing into the FRS 102 regime. This recognises that some entities will have made decisions and entered into arrangements under previous GAAP which could have significant consequences under the new framework that were unforeseen at the time of inception.

We would strongly urge the FRC to permit early adoption of the revised standard if the legislation permits. Our response to the Department for Business Innovation and Skills consultation "*UK Implementation of the EU Accounting Directive – Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit*" pressed the case for allowing early adoption.

Our responses to the specific questions raised in the Consultation are set out in Appendix 1.

If you would like to discuss any aspect of this response please do not hesitate to contact me.

Yours faithfully

Donna Wilcox
Technical Senior Manager
Baker Tilly UK Audit LLP



Appendix 1

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?

Yes, we agree. The financial reporting requirements of micro-entities are different to other entities. We support the development of a separate accounting standard due to the proposed simplified recognition, measurement and disclosure differences compared to FRS 102. A separate standard will also make it easier for owners and directors of micro-entities, and preparers of micro-entity financial statements, to understand and navigate the applicable requirements.

We do have one concern, which is that the term “FRSME” may be confusing as it was the predecessor title for FRS 102. An alternative may be FRS 105.

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 agree with the simplified measurement of financial instruments and the simplified accounting for post-employment benefits. We also welcome the proposed exemption from the requirements to account for deferred taxation and equity-settled share-based payments.

The accounting for these items can be complex and costly to micro-entities that, in the main, do not have in-house expertise. The benefits to users of micro-entity financial statements of providing this information are unlikely to justify these costs.

We acknowledge that there may be some micro-entities that would wish to capitalise borrowing costs when developing properties, but do not consider that they should be precluded from doing so. We would ask the FRC to reflect on whether retaining the option to capitalise borrowing costs, in-line with FRS 102, would benefit micro-entities.

We would also suggest simplification of the accounting for cash-settled share-based payments by micro-entities. This could be similar to the current simplification in the FRSSE, i.e. to recognise the best estimate of the expenditure required to settle the liability rather than fair value.



Appendix 1 (continued)

Question 3

The accounting standard that is applicable to small entities (not just small companies) (i.e. 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 have long agreed that a consistent framework should apply to all entities, whether they are incorporated or not. On that basis, we strongly support the proposals to extend the recognition and measurement requirements of FRS 102 to all small entities, not just companies.

We also support a reduction in the number of mandatory disclosures for small entities. However, we share the FRC's concerns that directors and preparers may find it a challenge to determine when additional disclosures are required to achieve a true and fair view. We would therefore welcome illustrative guidance from the FRC covering situations where additional disclosures may be required to achieve this overriding requirement.

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?

Yes, we agree that the FRSSE should be withdrawn. As noted in our response to question 3, we strongly support the use of consistent frameworks, not only between different types of entity, but also different sizes of entity.

In order to assist small entities which have already entered into transactions and arrangements where adoption of the new recognition and measurement criteria will have a significant impact on distributable profits and their ability to meet financial covenants, consideration should be given to developing transition exemptions to mitigate this impact. For example, the FRC may consider providing an exemption which allows continued use of current UK GAAP accounting for derivatives that were entered into before the first period of account in order to provide a soft landing. This example is consistent with the approach adopted for service concession arrangements in section 35 of FRS 102.



Appendix 1 (continued)

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?

It is difficult to comment until the proposals following responses to FRED 50 have been publicised but, in principle, we do not consider inclusion of the proposed accounting by RMCs within Section 34 of FRS 102 to be appropriate. Once the FRC has finalised its position on the accounting for service charges by RMCs it should then assess the best way to issue interpretive guidance, which we do not believe should be within section 34 of FRS 102.

However, should the FRC proceed with its proposals to incorporate the accounting for RMCs within Section 34 of FRS 102, we would ask the FRC to ensure that consideration is given to how these requirements are reflected within the new accounting standards for micro-entities and small entities as many RMCs will qualify as micro-entities or small entities.

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 that there is no need to incorporate the regulatory requirements for medium and large companies into FRS 102. This would significantly increase the length of FRS 102. We consider that these entities, particularly if BIS proposals to increase the size thresholds for small companies are enacted in company law, should have the capacity and resources to consider the disclosure requirements in UK Company Law alongside the requirements of FRS 102. Many will have access to software packages or disclosure checklists to assist them in this process.



Appendix 1 (continued)

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?

Yes, we consider the requirement to comply with the company law formats to be an unnecessary complexity for qualifying entities that wish to take advantage of the reduced disclosure regime in FRS 101. Permitting application of the requirements of IAS 1 will increase efficiency of financial reporting under FRS 101 as entities will no longer need to undertake the, often time-consuming and costly, exercise of amending the presentation of their previous IAS 1 compliant financial statements.