

Association of Accounting
Technicians response to
FRED 59 Draft
amendments to FRS 102
*The Financial Reporting
Standard applicable in the
UK and Republic of Ireland*

Association of Accounting Technicians

response to FRED 59 Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* Small entities and other minor amendments

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Exposure Draft FRED 59 “Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* Small entities and other minor amendments” (condoc).
- 1.2. AAT is submitting this response on behalf of our membership and to support AAT’s objective “to advance public education and promote the study of the practice, theory and techniques of accountancy” and for wider public benefit.
- 1.3. AAT has commented in order to add value to the process-in-hand or to highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals. In doing so has provided opinion on the practicalities of implementing the measures outlined.
- 1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs, many of which employ AAT members or would be represented by our operationally skilled members in practice.

2. Executive summary

- 2.1. Financial reporting in the UK and Republic of Ireland is undergoing significant changes due to the introduction of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. Many entities in the UK and Republic of Ireland with a 31 December 2015 year-end will already be under the scope of FRS 102 or the FRSSE (effective January 2015).
- 2.2. The transposition of the EU Accounting Directive into the Companies Act 2006 has given rise to the need to consider the financial reporting requirements of companies classed as small under the Companies Act 2006. Moreover, this is now likely to affect a further 11,000 entities (approximately) which would have been classed as medium-sized, but which will now fall to be classed as small according to the Department for Business, Innovation and Skills because of the raising of the small company size limits.
- 2.3. AAT supports the proposal to withdraw the FRSSE (effective January 2015) for accounting periods commencing on or after 1 January 2016 as the FRSSE is no longer considered to be sustainable in its current form.
- 2.4. AAT supports the proposal to move all small entities which are not micro-entities, or that would qualify as micro-entities but choose not to report under the micro-entities regime, to fall under the scope of FRS 102 as applied to small entities.
- 2.5. AAT supports this proposal on the basis that requiring small entities to report under the scope of FRS 102 will reduce the level of accounting changes experienced by an entity as it grows and hence may, in the future, report under a more comprehensive framework, whether that is the full FRS 102 or EU-adopted IFRS.

3. **AAT response to the FRC’s Exposure Draft “Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* – Small entities and other minor amendments”**

Question 1

Do you agree that the proposed Section 1A *Small Entities* adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you use?

- 3.1. AAT agrees that the proposed Section 1A (conduc) adequately reflects the new small companies regime set out in company law. Whilst the legislation only makes provision for 13 mandatory disclosures, the FRC has expanded on those disclosure requirements to help preparers fully understand how the disclosures should be comprised. AAT considers this to be helpful to preparers of small entity financial statements who may be excessively reliant on automated accounts production software systems to make the required disclosures.
- 3.2. It is of concern to AAT that section 1A is difficult to read due to the cross-referencing deployed within the section.
- 3.3. While AAT understands that the cross-referencing in the section was deliberate in order to aid understanding as to exactly what the disclosure requirements are; however AAT believes that section would benefit from outlining the disclosures that are required and then linking them to the legal requirements. While, we acknowledge, this method may make the section longer, AAT believes this would make it more user-friendly.
- 3.4. The EU Accounting Directive only makes provision for 13 mandatory disclosures to be made in a small entity’s financial statements and in some cases the application of the minimum mandatory disclosure notes may mean that the financial statements fail to give a true and fair view. While AAT acknowledges it is burdensome for directors to have to consider and include additional disclosures in order to enable their entities financial statements to give a true and fair view,
- 3.5. AAT fully supports the inclusion of paragraph 1A.12 in the draft FRS 102 which specifically requires small entities to consider making additional disclosure requirements to achieve the true and fair concept. In order to expedite this action, it is expected that directors of small companies will seek advice from their accountancy firms to assist in the production of additional disclosure requirements to achieve the required true and fair view.

Question 2

In developing these proposals the FRC has applied the principle that there should not be differences between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. This principle has been determined after taking account of the generally positive response to a similar proposal in the Consultation Document.

Do you agree with this principle? If not, why not and what alternative principle or specific exceptions to this principle would you propose?

- 3.6. AAT accepts that there should not be differences between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. Indeed investors and potential investors wish to see consistency in financial reporting across entities in order to make reasoned and informed decisions concerning the entity’s financial position and performance.
- 3.7. Consistency achieves comparability and hence having the ability to compare financial statements between companies and industries will help investors.

- 3.8. In addition, AAT believes that requiring small companies to report under the recognition and measurement principles contained in full FRS 102 will assist the reporting entity as it grows because the way in which the entity accounts for items within the financial statements will not change as the entity moves up to full compliance with FRS 102. Having consistent recognition and measurement principles will also serve to reduce the scope for errors due to fewer disparities between accounting treatments contained in the suite of standards.

Question 3

Do you agree that the transitional provisions in FRS 102 are sufficient for small entities, or have you identified any further areas where transitional provisions should be considered? If so, please provide details.

- 3.9. The transitional provisions contained in Section 35 *Transition to this FRS* are considered by AAT to be comprehensive.
- 3.10. AAT believes that the transitional provisions contained in Section 35 could be further expanded upon in light of the fact that for many small entities, the date of transition will have already passed. For example, small entities could account prospectively from the date of transition for fair value financial instruments, share-based payment transactions and perhaps long-term intra-group loans and similar balances which are below a market rate of interest. As the date of transition will have already passed for many small entities, it would be inherently difficult to apply retrospective valuations and also change intra-group arrangements.

Question 4

Do you agree with the other amendments proposed to FRS 102 for compliance with company law? If not, why not?

- 3.11. AAT agrees with the other amendments proposed to FRS 102 for compliance with company law. AAT also supports the proposal to encourage the additional disclosure requirements contained in paragraph 1A.15 (a) to (e) of FRED 59.
- 3.12. In considering the additional *encouraged* disclosures contained in paragraph 1A.15 (a) to (e), AAT would also consider directors' remuneration and other benefits to be an encouraged disclosure in small entities' financial statements. AAT believes that transactions with directors are material in nature and hence the disclosure of directors' remuneration and other benefits separately, rather than subsumed within the income statement, should be considered as an encouraged disclosure by the FRC.

Question 5

The FRED is accompanied by a *Consultation Stage Impact Assessment*. Do you have any comments on the costs or benefits discussed in that assessment?

- 3.13. AAT supports the FRC's proposal to move small entities under the scope of FRS 102 by amending the FRS 102 disclosure requirements and including an additional Section 1A *Small Entities*. By moving small entities under the scope of FRS 102, it will enable small entities to apply an accounting standard which is based on a similar framework to larger entities. As FRS 102 has also introduced improved financial reporting requirements in complicated areas (such as financial instruments), AAT believes that this will also increase transparency for users concerning the risks associated with complex items accounted for in the financial statements.
- 3.14. AAT supports the withdrawal of the FRSSSE (effective January 2015) on the basis that there are significant disparities in accounting methodologies between the FRSSSE (effective January 2015) and FRS 102 principles. In addition, the FRSSSE was developed from previous UK GAAP and is therefore now based on a redundant framework. Withdrawing the FRSSSE (effective January 2015) and amending FRS 102 so that it caters for small entities allows for consistency and comparability, as well as providing for

future cost-savings in cases where the entity grows as the education and training needed to apply the full FRS 102 will be reduced.

4. Conclusion

- 4.1. AAT supports the proposals contained in FRED 59 and the reasons for the amendments to FRS 102 in 10 of the *Consultation Stage Impact Assessment*¹.
- 4.2. AAT believes that by moving small entities under the scope of FRS 102 as amended for small entities will provide benefits to small entities in the form of consistent and comparable financial reporting which enables transparent financial information to be provided to the users of those financial statements.

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members and 78,400 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100² Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions in respect of our response or you would like to discuss any of the points that we have made in more detail then please contact AAT at:

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¹ [Consultation Stage Impact Assessment: FREDS 58, 59 and 60](#)

² Figures correct as at 31 March 2015