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Our ref: 02/BC/EU Accounting
Directive

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Dear Jenny,

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

We are pleased to have the opportunity to comment on the consultation 'Accounting standards for small entities - Implementation of the EU Accounting Directive'.

With the exception of question 5, in relation to Residential Management Companies, we agree with the proposals put forward. Our detailed responses are set out in Appendix 1.

As noted in our response to question 4, we share the FRC's concerns that some of the changes in legislation could impair the usefulness of the resulting financial information and/or place a greater onus on the directors of small companies in their assessment of whether the resulting financial statements provide a true and fair view. We encourage the FRC to investigate whether there is a means by which further guidance on disclosures can be issued within the constraints of law.

If you wish to discuss any of the points further, please contact me using the contact details set out above.

Yours sincerely,

Nicole Kissun
Partner
For and on behalf of BDO LLP



Appendix 1

Micro-entities

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 with this proposal.

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?

Yes.

We agree with the proposed recognition and measurement simplifications and there are no further areas where we consider further simplifications should be made.

Small entities

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?

Yes.

We agree that the accounting standard for small entities should be applicable to all entities meeting the relevant criteria. This will aid consistency and provide the simplest option for directors and stakeholders to understand. Please also refer to our response to question 4 and in particular our support for the view expressed by the FRC in paragraphs 1.8 of the Consultation Document.

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 on the basis that maintaining two separate UK GAAP frameworks will not be practical. Consistent recognition and measurement requirements will aid comparability between companies and make transition between small and medium easier to manage.

We agree also with the statement made by the FRC in paragraph 1.8 of the Consultation Document. In particular, we concur that some of the changes in legislation could impair the usefulness of the resulting financial information and/or place a greater onus on the directors of small companies in their assessment of whether the resulting financial statements provide a true and fair view.

We encourage the FRC to investigate whether there is a means by which further guidance on disclosures can be issued within the constraints of law.

Residential management companies

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?

No.

Whilst it is firmly our view that the FRC should issue an authoritative statement on accounting for Residential Management Companies (including commentary on the accounting implications as well as the legal position), we consider that including such guidance within section 34 could set a precedent under which section 34 becomes a long mix of industry specific guidance. We consider that interpretations of law and accounting standards should be issued by another means, outside of FRS 102.

We also note that guidance applicable to Residential Management Companies is more likely to be relevant to micro entities and so if the FRC was inclined to include guidance in an accounting standard then the FRSME would be a better place.

FRS 102

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?

Yes.

We do not see a need to change the current approach.

FRS 101**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?

Yes.

Permitting entities to apply the presentation requirements of IAS 1 would be a positive step forward and, in our view, there would be a high take-up rate.