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30 April 2015

Dear Jenny

**RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED  
ACCOUNTANTS IRELAND**

**FRED 58 Draft FRS 105**

The Accounting Committee (AC) of Chartered Accountants Ireland welcomes the opportunity to respond to the proposals in the abovementioned exposure draft.

Should you wish to discuss any of the views expressed, please feel free to contact me.

Yours sincerely



Mark Kenny  
Secretary to the Accounting Committee



## APPENDIX

### Question 1 - Structure and language of draft FRS 105

AC agrees with the approach to the structure and language of draft FRS 105.

### Question 2 – Legal requirements

*The proposed amendments to align the requirements of draft FRS 105 with company law are discussed in more detail in paragraphs 19 to 31 of the Accounting Council's Advice.*

*Do you agree that draft FRS 105 accurately reflects the legal requirements and exemptions of the Micro-entities Regime including:*

- a) Its scope?*
- b) The presentation and formats of financial statements?*
- c) The prohibition of the use of the Alternative Accounting Rules and Fair Value Rules?*
- d) The disclosure exemptions?*

*If not, why not? What further amendments are required?*

AC agrees with above proposals of draft FRS 105.

In relation to the Republic of Ireland, AC understands that legislation for micro company accounting is currently being developed on a basis consistent with the UK legislation.

### Question 3 – Principles for simplifications

***The Accounting Council used the following principles in considering whether further simplifications over and above the legal requirements would be appropriate in draft FRS 105:***

- a) if the burden of applying the accounting treatment in FRS 102 is not outweighed by the benefits for micro-entities and an alternative, more straightforward, treatment could be identified;***
- b) if the lack of detail in the formats of the financial statements and/or supporting disclosures would limit the understanding of the financial information presented; and/or***
- c) if transactions occur infrequently amongst micro-entities.***

***Paragraphs 32 to 35 of the Accounting Council's Advice provide further detail.***

***Do you agree with these overarching principles and the resulting simplifications proposed in draft FRS 105? If not, why not?***

AC agrees with the overarching principles and the resulting simplifications proposed in the draft 105.

### Question 4 – Financial Instruments (Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues)

***The micro-entities regime prohibits the subsequent measurement of assets and liabilities at fair value, therefore financial instruments are measured at cost or amortised cost. Draft FRS 105 proposes a number of further simplifications over and above these legal requirements (see Section 11 Basic Financial Instruments).***

***Paragraphs 44 to 50 of the Accounting Council's Advice provide further details.***

***Do you agree with this approach? If not, why not?***

***Do you believe further simplifications are necessary for micro-entities? If so, please provide further details.***

AC agrees with the approach outlined above.

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**Question 5 - Capitalisation of development costs (Section 18 Intangible Assets other than Goodwill) and borrowing costs (Section 25 Borrowing Costs)**

***Draft FRS 105 proposes to remove the accounting policy options from FRS 102 in relation to the capitalisation of borrowing costs (Section 25 Borrowing Costs) and development costs (Section 18 Intangible Assets other than Goodwill). The proposed mandatory treatment will be to expense both borrowing and development costs.***

***Paragraphs 42 to 43 of the Accounting Council's Advice provide further details.***

***Do you agree with this approach? If not, why not?***

AC agrees with the simplifications outlined above.

**Question 6 - Government grants (Section 24 Government Grants)**

***Draft FRS 105 removes the accounting policy option from FRS 102 in relation to the treatment of government grants (Section 24 Government Grants). The proposed mandatory treatment will be to apply the performance method.***

***Paragraphs 42 to 43 of the Accounting Council's Advice provide further details.***

***Do you agree with this approach? If not, why not? Alternatives would be to continue to permit the accounting policy choice (ie FRS 105 would allow a choice between the accruals method and the performance method) or to require the accruals method.***

AC agrees with the elimination of the accounting policy choice for government grants.

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### Question 7 - Simplifications via cross-referencing to requirements in FRS 102

***There are a number of areas within draft FRS 105 where it is proposed that the detailed requirements for a particular type of transaction are removed but a cross-reference to FRS 102 is inserted for micro-entities that have these types of transactions, on the basis that these types of transactions occur infrequently amongst the majority of micro-entities.***

***The areas where this approach has been proposed include:***

- a) intermediate payment arrangements (Section 9 Consolidated and Separate Financial Statement);***
- b) trade and asset acquisitions (Section 19 Business Combinations);***
- c) puttable instruments and examples of compound financial instruments (Section 22 Liabilities and Equity);***
- d) cash-generating units (Section 27 Impairment of assets); and Financial Reporting Council 9***
- e) foreign branches (Section 30 Foreign Currency Translation).***

***Do you agree with this proposed approach in general, and specifically for these types of transactions? If not, why not? Alternatives would be to reproduce the requirements of FRS 102 within draft FRS 105 or for draft FRS 105 to be silent.***

AC agrees with the cross reference proposals recognising that most micro entities are unlikely to have these types of transactions.

### Question 8 - Other simplifications

***Do you believe that any further accounting simplifications should be made to draft FRS 105 that would be appropriate for micro-entities? If so, please provide specific details of the simplifications you propose and the reasons why the simplification should be made.***

AC is content with the level of accounting simplification proposed.

AC notes its suggestion to the Discussion Document that operating lease accounting might be permitted for all leases, having regard to the requirement to disclose lease commitments in any case.

### **Question 9 - Residents' management companies (FRED 50)**

***The FRC's Consultation Document proposed that a new sub-section is added to Section 34 Specialised Activities of FRS 102 for residents' management companies, setting out requirements that would be developed from the proposals set out in FRED 50 Draft FRC Abstract 1 – Residential Management Companies' Financial Statements.***

***Only some 32% of respondents to this question agreed with the proposal, with the rest disagreeing (50%) or providing some other response (18%).***

***The most compelling reasons given for not proceeding with the proposal were that:***

- (a) the issue is too narrow and industry-specific to be dealt with in an accounting standard and inclusion in Section 34 of FRS 102 would open up the FRC to specific requests that could result in the standard becoming unwieldy and difficult to apply; and***
- (b) interpretations of law and accounting standards should be issued by other means with a significant number of respondents calling for an alternative solution such as sector-specific guidance developed by the FRC or the development of a Statement of Recommended Practice (SORP) by parties outside of the FRC.***

***In light of feedback received, the FRC now proposes that a clear statement of the legal position (ie that residents' management companies act as principals) should be included in the Accounting Council's Advice to the FRC (see paragraphs 54 to 59 of the Accounting Council's Advice). This clarification of the legal position should reduce the diversity in practice that currently exists because when an entity enters into transactions as a principal, such transactions should be recorded in its accounts.***

***Do you agree with this approach? If not, why not? What alternative approach do you propose?***

AC notes the legal advice received by the FRC that RMCs act as principal and recommends that FRS 105 should clarify the precise type of RMC which was the subject of this legal advice, in case other types of RMC might act as agents.

### **Question 10 - Consultation Stage Impact Assessment**

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

AC agrees that the FRS will generate cost savings in the preparation of financial statements for micro entities.

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