

Our ref: NATS/CB  
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Jenny Carter  
Financial Reporting Council  
Aldwych House  
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WC2B 4HN

12 February 2014

Dear Ms Carter

**FRED 52: Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro Entities**

Baker Tilly is a leading mid-tier provider of accountancy and business services and has almost 4,000 partners and staff based in a network of offices across the UK. Our clients operate in many sectors and range from young entrepreneurial businesses to well established listed and international organisations. Our particular expertise is in helping owner managed, entrepreneurial and growing businesses to achieve their ambitions.

We welcome the opportunity to comment on the FRC's Exposure Draft, FRED 52 "Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities" ("the ED"). Our response to the question raised is set out in Appendix 1.

As in our previous responses to both the FRC and BIS in respect of consultations regarding reduced financial reporting requirements for micro-entities, we continue to support the lessening of the burden on such entities. In our opinion, the amendments to the FRSSE (effective April 2008) satisfy that objective, although we note a number of concerns for your consideration in Appendix 1.

Our two main issues as set out in Appendix 1 are that:

- We encourage more consideration of the 'think small first' approach adopted by the EU and UK Government, which drives these changes. We consider that a more 'user friendly' format would enable preparers of micro-entity accounts to identify the exact reporting requirements more easily; and
- We also encourage a deemed cost exemption for those micro entities that currently have revalued assets on their balance sheet. This would not only simplify transition, but also avoid adverse commercial effects that may occur from a sudden decrease in net assets.

**Response to FRED 52 “Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities”**

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

Yours sincerely

**Colin Burns**  
**Technical Associate Director**  
**Baker Tilly Tax and Accounting Limited**



**Question 1**

*Do you agree with the proposed amendments to the FRSSE for micro-entities? If not, why not?*

- 1.1 We broadly agree with the proposed amendments to the FRSSE (effective April 2008) for micro-entities. However, we also make the following observations and recommendations, including highlighting some unintended consequences which may arise as a result of the proposed amendments:

*Minimising backwards steps – revaluation model transition*

- 2.1 We support the identification and removal of unnecessary barriers in order to encourage a greater take-up of the much needed deregulatory micro entities provisions. We are also broadly supportive of the FRCs tentative views to bring the FRSSE (and hence micro entities) within FRS 102 in due course, and so whilst the legislative changes that require there to be no revaluation model is an accounting “backwards step” its impact on those that can take advantage of the micro entity provisions should be minimised. Transitional exemptions for revaluations already booked, (such as those currently permitted in FRS 102) would help overcome the barriers for micro entities that have significant revalued assets that could nevertheless qualify for micro entity regulations arising from both the commercial impact (e.g. credit rating or bank loans secured on investment properties) that an instant reduction in net assets may have, as well as the accounting involved in restating comparative figures.
- 2.2 We therefore request that the FRC considers implementing similar transitional exemptions for micro entities as it has done for FRS 102, allowing deemed cost to be used. This seems particularly appropriate given the current thoughts on subsuming the FRSSE into FRS 102. We therefore recommend that the FRSSE is amended to allow the opening brought forward valuation to be “deemed cost”. This will prevent adverse effects on the net asset position of those entities that have substantial investment properties (but are within the micro-entity limits for turnover and employees) and allow figures to be simply rolled forward and thus allowing greater take-up of the micro entities provisions.
- 2.3 In addition to this, we would suggest that paragraph (iv) of the introduction to the ED is fundamentally inaccurate. An entity who previously applied the FRSSE (effective April 2008) and held investment property (or any other revalued assets) in their accounts would have a difference in measurement on transition to the proposed requirements for micro-entities as outlined in the ED. We would also suggest that users may read this introduction and incorrectly conclude that, on the basis of this statement, there are no changes to the measurement of investment properties or other revalued assets. We would request that this introductory paragraph is rephrased to avoid confusion.



*Usability of the proposed amendments*

- 3.1 The FRSSE (effective April 2008) is considered to be a complete reference for users (i.e. a “one-stop shop”). As such, we suggest that the definition of a micro-entity proposed for inclusion in Part C of the FRSSE (effective April 2008) is either fully defined, or a reference made to the further criteria as included in the definition provided in the Companies Act 2006. This could be achieved by expanding the definition to read:

*“‘Micro-entity’ – As further defined in the Act, a company which on its balance sheet date does not exceed the limits of two of the three following criteria:*

- a) turnover: £632,000*
- b) balance sheet total: £316,000; and*
- c) average number of employees during the financial year: 10”*

- 3.2 Further, we ask the FRC to consider revising the format of the document to make it more accessible to micro entities. Given the ‘think small first’ approach adopted by both the EU and the UK Government, we would suggest a more condensed, ‘user friendly’ format, which would allow preparers of micro-entity accounts to easily identify their applicable reporting requirements without having to cross refer to other parts of the FRSSE or legislation. This could be achieved through a Micro Entity chapter of the FRSSE including all and only the content applicable to micro-entities. Whilst this may require a degree of repetition, either from other chapters of the FRSSE (effective April 2008) itself, or from the relevant legislation, we consider that this would make the requirements easier for users to understand and apply as well as retaining the “one-stop shop” status of the FRSSE for micro entities.
- 3.3 Paragraph 4 of the ED details the proposed paragraphs 2.40 and 2.41 which list the items to be included in a micro-entity’s balance sheet and profit and loss account respectively. We note that both paragraphs state that micro-entities preparing their financial statements in accordance with section 393(1A) of the Companies Act 2006 may show only those items listed. In contrast, Statutory Instrument 3008/2013 “The Small Companies (Micro-Entities’ Accounts) Regulations 2013” (Part 4, Section 10, Paragraph 2a) states that ‘the only items which must be shown on the company’s [balance sheet/profit and loss account] for that year are those listed’, thus suggesting that additional items may be included in the primary statements. We would question if it is the intention of the proposed amendment to the FRSSE (effective April 2008) to prohibit additional information to be disclosed on the face of the balance sheet or profit and loss account.
- 3.4 The proposals as outlined within the ED would amend the FRSSE (effective April 2008), but makes no mention of any amendments to the FRSSE (effective January 2015). As referred to in paragraph 2.1, we are aware of the FRC’s consideration of the withdrawal of the FRSSE. However, we are



concerned that a short term disparity may arise for any micro-entities that have early adopted the FRSSE (effective January 2015). Early adopters of the FRSSE (effective January 2015) would therefore encounter inconsistencies between the FRSSE (effective January 2015) and the micro-entity regulations.