



Financial Reporting Council

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Our Ref: MHA/Tech/01

Dear Mrs Carter

MHA Comments on the FRC's Proposals for implementation of the new EU Accounting Directive

Thank you for the opportunity to comment on these proposals.

MHA is a national association of independent accountants offering a full range of services to national, regional and local businesses. MHA can be found in 47 offices across England, Scotland and Wales. The association also has an international presence through its membership of Baker Tilly International.

The member firms of MHA act for a substantial number of owner-managed businesses across the United Kingdom. The majority of these businesses will be either directly or indirectly affected by these proposals.

MHA supports the majority of the proposals made by the FRC in this consultation paper. The association does however have some suggestions as to how they might be improved.

Our comments in response to the questions asked have been provided on pages 2-6.

Should you wish to discuss any of these comments please do not hesitate to contact us.

Yours faithfully

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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?

NO

While we appreciate that there has been widespread support for these proposals we are concerned they will create a four tiered financial reporting framework in the UK. This situation is already complex and could only be made worse by introducing an additional self-contained set of guidance in the form of a FRSME.

It seems likely that measurement criteria under this guidance will start from the position under FRS 102 with specific exceptions which are aimed at simplification.

We believe that this task can best be accomplished through the inclusion of the FRSME proposals as a new Micro-entities section within FRS102. This will allow for cross referencing within the existing standard and will make subsequent updates to FRS 102 and to the appropriate guidance for Micro-entities more efficient.

We have also considered an alternative approach to the inclusion of FRSME proposals into FRS 102 and this is outlined in our response to Question 2.

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 measurement simplifications that are being considered for the FRSME.

We believe that these proposals should also consider the following:

- A prohibition on the use of fair value as a measurement criteria under this element of the framework.
- A declaration that the measurement and disclosure requirements of FRS102 are not applicable to entities that opt to use the Micro-entities regime

We have also considered an alternate approach to the inclusion of a Micro Entities chapter.

Under this approach the FRSME chapter of FRS 102 would:

- Outline the measurement, recognition and disclosure requirements for five broad classes of items in the financial statements of Micro-entities i.e. Assets, Liabilities, Income, Expenditure and Capital.
- Require these guidelines to be used for any entity that opted to use the micro entities regime.
- Permit entities to use the FRS 102 measurement basis where management deems this appropriate and where the basis used is clearly described in the accounts.

This approach retains the advantages of having a one-stop-shop approach for entities regardless of their size while still allowing for the self-contained simplicity sought by many preparers.

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?

YES

We agree that small entities in general (not just small companies) should be within the scope of the new guidance.

It would be difficult to justify a framework that requires small entities to make additional disclosures simply because they are not companies.

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

In our response to Question 1 we suggested the proposals for Micro-entities be included as a separate section within FRS 102.

We believe these small entities proposals should likewise be included in a separate Small Entities section within FRS 102.

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?

YES

We agree that this is a logical solution.

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?

NO

We believe that FRS 102 provides an excellent source of guidance for the profession on the requirements for the measurement, recognition, presentation and disclosure of financial information to users. The one-stop-shop approach used in the FRSSE has been very useful for preparers. We believe that the benefits of this approach should be extended to all users of FRS 102.

The inclusion of the Companies Act elements now excluded will only serve to enhance the usefulness of FRS 102 as a guide to preparers and users of financial information. Accordingly we believe that the FRC should use this opportunity to enhance the quality of the standard.

That said if the incorporation of this guidance will substantially delay the release of an updated standard then the FRC should consider the inclusion of these details as part of their first three-yearly review.

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

This flexibility is welcomed and we do not foresee any downsides to this approach.