Exposure Draft

Financial Reporting Council

February 2015

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

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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Contents

Summary

(i) In 2012, 2013 and 2014 the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with four Financial Reporting Standards:

(a) FRS 100 *Application of Financial Reporting Requirements*;

(b) FRS 101 *Reduced Disclosure Framework*;

(c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

(d) FRS 103 *Insurance Contracts*.

As a result of the implementation of the new Accounting Directive this Financial Reporting Exposure Draft (FRED) proposes amendments to FRS 102 to:

(a) establish revised requirements for financial reporting by small entities; and

(b) make limited other amendments for compliance with company law.

(ii) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

(iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

Draft amendments to FRS 102 – Small entities and other minor amendments

(iv) The FRC issued a Consultation Document *Accounting Standards for small entities – Implementation of the EU Accounting Directive* in September 2014 which, inter alia, consulted on the future of accounting standards for small entities and other amendments to accounting standards likely to be necessary as a result of the implementation of the Accounting Directive. This FRED takes into account the feedback from that consultation which indicated strong support for the development of a new section of FRS 102 for small entities.

(v) This FRED sets out the presentation and disclosure requirements applicable to small entities based on the new small companies regime within company law, whilst the recognition and measurement requirements of FRS 102 will also apply.

(vi) This FRED also proposes a small number of other amendments necessary to maintain consistency between FRS 102 and company law. This is not a comprehensive review of the requirements of FRS 102.

(vii) This FRED has been developed on the basis of the draft *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* which were laid before Parliament in January 2015. The final amendments to FRS 102 will not be issued until the legislation has been made and will take into account any relevant developments in the intervening period.

Residents' management companies (FRED 50)

(viii) FRED 59 includes the Accounting Council's advice on the preparation of financial statements of residents' management companies following consideration of responses to FRED 50 *Draft FRC Abstract Residential Management Companies' Financial Statements and Consequential Amendments to the FRSSE* and the Consultation Document.

Invitation to comment

1 The FRC is requesting comments on FRED 59 by 30 April 2015. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

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 propose?

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 the principle would you propose?

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.

Question 4

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

Question 5

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

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 50.

[Draft] Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Small entities and other minor amendments

[Draft] Amendments to Section 1 *Scope*

1 The following paragraphs set out the [draft] amendments to Section 1 *Scope* (deleted text is struck through, inserted text is underlined).

2 Paragraph 1.2A is inserted as follows:

1.2A An entity applying this [draft] FRS must ensure it complies with any relevant legal requirements applicable to it. For example, other than in relation to small companies (see Section 1A *Small Entities*), this [draft] FRS does not necessarily contain all legal disclosure requirements.

3 Paragraph 1.3 and footnote 4 are amended as follows (footnotes 5 and 6 are not amended, and are not reproduced here):

1.3 As stated in **FRS 100**, an entity that is required by the **IAS Regulation** (or other legislation or regulation) to prepare **consolidated financial statements** in accordance with **EU-adopted IFRS** must do so. The **individual financial statements** of such an entity, or the individual financial statements or consolidated financial statements of any other entity within the scope of FRS 100, must be prepared in accordance with the following requirements:

(a) If the financial statements are those of an entity that is eligible to apply [draft] **FRS 105** ~~the **FRSSE**~~[4], they may be prepared in accordance with that standard.

(b) If the financial statements are those of an entity that is not eligible to apply [draft] FRS 105 ~~the FRSSE~~, or of an entity that is eligible to apply [draft] FRS 105 ~~the FRSSE~~ but chooses not to do so, they must[5] be prepared in accordance with this FRS, EU-adopted IFRS or **FRS 101**[6].

4 The eligibility criteria for applying [draft] FRS 105 ~~the FRSSE~~ are set out in legislation and paragraph 1.2~~8~~ of [draft] FRS 105 ~~the FRSSE~~. In establishing whether the eligibility ~~One of the~~ criteria have been met ~~is that the entity must be 'small' as defined in company law. T~~turnover and balance sheet total shall ~~should~~ be measured in accordance with [draft] FRS 105 ~~the FRSSE~~ ~~for the purposes of establishing whether the entity is 'small'~~; the measurement of turnover and balance sheet total in accordance with FRS 101 or FRS 102 need not be considered.

4 Paragraph 1.12 is amended as follows:

1.12 A qualifying entity (for the purposes of this FRS) may take advantage of the following disclosure exemptions:

(a) The requirements of Section 4 *Statement of Financial Position* paragraph 4.12(a)(iv).

(b) The requirements of Section 7 *Statement of Cash Flows* and Section 3 *Financial Statement Presentation* paragraph 3.17(d).

(c) The requirements of Section 11 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) ~~11.39 to 11.48A~~ and Section 12 paragraphs 12.26, 12.27, 12.29(a), 12.29(b), 12.29(e) and ~~to~~ 12.29A providing ~~the equivalent~~ disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.

(d) The requirements of Section 26 *Share-based Payment* paragraphs 26.18(b), 26.19 to 26.21 and 26.23, provided that for a qualifying entity that is:

(i) a **subsidiary**, the share-based payment arrangement concerns equity instruments of another group entity;

(ii) an ultimate parent, the share-based payment arrangement concerns its own equity instruments and its **separate financial statements** are presented alongside the consolidated financial statements of the group in which the entity is consolidated.

(e) The requirement of Section 33 *Related Party Disclosures* paragraph 33.7.

5 Paragraph 1.15 is inserted as follows:

1.15 In [month] 2015 amendments were made to this [draft] FRS to incorporate the new small entities regime and make other amendments necessary to maintain consistency with company law. An entity shall apply [these amendments] for accounting periods beginning on or after 1 January 2016. Early application is permitted for accounting periods beginning on or after 1 January 2015. If an entity applies [these amendments] before 1 January 2016 it shall disclose that fact, unless it is a **small entity**, in which case it is encouraged to disclose that fact.

[Draft] Section 1A
Small Entities

6 A new Section 1A *Small Entities* is inserted as follows:

Scope of this section

1A.1 This section sets out the information that is to be presented and disclosed in the **financial statements** of a **small entity**. Unless excluded below, the requirements of this [draft] FRS apply to a small entity, including the **recognition** and **measurement** requirements.

Complete set of financial statements of a small entity

1A.2 A small entity is not required to comply with the requirements of paragraphs 3.3, PBE3.3A, 3.9, 3.17, 3.18, 3.19 and 3.24(b), Section 4 *Statement of Financial Position*, Section 5 *Statement of Comprehensive Income and Income Statement*, Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* and Section 7 *Statement of Cash Flows*.

1A.3 A small entity shall present the following:

(a) a **statement of financial position** as at the **reporting date** in accordance with paragraph 1A.5;

(b) an **income statement** for the **reporting period** in accordance with paragraph 1A.9; and

(c) **notes** in accordance with paragraphs 1A.12 to 1A.15.

1A.4 A small entity is encouraged to present a statement of changes in equity (see Section 6).

Information to be presented in the statement of financial position

1A.5 A small entity shall present a statement of financial position in accordance with the requirements for a balance sheet set out in Part 1 *General Rules and Formats* of Schedule 1 to the **Small Companies Regulations**.

1A.6 A small entity choosing to apply paragraph 1A(1) of Schedule 1 to the Small Companies Regulations and draw up an abridged balance sheet must still meet the requirement for the financial statements to give a true and fair view and therefore shall also consider the requirements of paragraph 1A.12 in relation to disaggregation of the balance sheet.

1A.7 A small entity choosing to apply paragraph 1B(1) of Schedule 1 to the Small Companies Regulations and adapt one of the balance sheet formats shall, as a minimum, include in its statement of financial position line items that present the following, distinguishing between those items that are **current** and those that are **non-current**:

(a) **cash** and **cash equivalents**;

(b) trade and other receivables;

(c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k));

(d) **inventories**;

(e) **property, plant and equipment**;

(f) **investment property** carried at **fair value** through **profit or loss**;

(g) **intangible assets**;

(h) **biological assets** carried at cost less accumulated **depreciation** and impairment;

(i) biological assets carried at fair value through profit or loss;

(j) investments in **associates**;

(k) investments in **jointly controlled entities**;

(l) trade and other payables;

(m) financial liabilities (excluding amounts shown under (l) and (p));

(n) liabilities and assets for **current tax**;

(o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current);

(p) **provisions**;

(q) **non-controlling interest**, presented within equity separately from the equity attributable to the owners of the **parent**; and

(r) equity attributable to the owners of the parent.

1A.8 A small entity choosing to apply paragraph 1B(1) of Schedule 1 to the Small Companies Regulations and adapt one of the balance sheet formats shall also disclose, either in the statement of financial position or in the notes, the following subclassifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the small entity;

(b) trade and other receivables, showing separately amounts due from **related parties** and amounts due from other parties;

(c) trade and other payables, showing separately amounts payable to trade suppliers and amounts payable to related parties; and

(d) classes of equity, such as paid-in capital, share premium, retained earnings and items of **income** and **expense** that, as required by this [draft] FRS, are recognised in **other comprehensive income** and presented separately in equity.

Information to be presented in the income statement

1A.9 A small entity shall present its **profit or loss** for a period in an income statement in accordance with the requirements for a profit and loss account set out in Part 1 *General Rules and Formats* of Schedule 1 to the Small Companies Regulations.

1A.10 A small entity choosing to apply paragraph 1A(2) of Schedule 1 to the Small Companies Regulations and draw up an abridged profit and loss account must still meet the requirement for the financial statements to give a true and fair view and therefore shall also consider the requirements of paragraph 1A.12 in relation to the presentation of turnover.

1A.11 A small entity choosing to apply paragraph 1B(2) of Schedule 1 to the Small Companies Regulations and adapt one of the profit and loss account formats shall, as a minimum, include in its income statement line items that present the following amounts for the period:

(a) **revenue**;

(b) finance costs;

(c) share of the profit or loss of investments in associates (see Section 14 *Investments in Associates*) and jointly controlled entities (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method;

(d) tax expense excluding tax allocated to other comprehensive income; and

(e) profit or loss.

Information to be presented in the notes to the financial statements

1A.12 A small entity shall present sufficient information in the notes to the financial statements to meet the requirement for the financial statements to give a true and fair view of the **assets**, **liabilities**, **financial position** and profit or loss of the small entity for the reporting period. A small entity shall apply paragraphs 8.3 and 8.4 in relation to the structure of the notes.

1A.13 A small entity is not required to comply with the disclosure requirements of paragraph 8.7 and Sections 9 to 35 of this [draft] FRS, but is encouraged to consider and provide any of those disclosures that are relevant to its transactions, other events or conditions in order to meet the requirement set out in paragraph 1A.12. In accordance with paragraph 3.16A a small entity need not provide a specific disclosure (including those set out in paragraph 1A.14) if the information is not **material**.

1A.14 As a minimum, where relevant to its transactions, other events and conditions, a small entity shall provide the following disclosures:

(a) **Accounting policies** adopted (in accordance with paragraphs 8.5 and 8.6).

(b) An explanation of the period over which **intangible assets** (including **goodwill**) are written off (in accordance with paragraph 18.27(a) and paragraph 19.25(g)).

(c) When **development** costs are capitalised as an accounting policy choice in accordance with paragraph 18.8H and the entity determines that the carrying amount of those intangible assets is not a realised loss, the reasons for showing development costs as an asset and that the carrying amount is not to be treated as a realised loss.

(d) When there has been a change in accounting policy, the disclosures set out in paragraphs 10.13 and 10.14.

(e) When there has been a correction of a material prior period **error**, the disclosures set out in paragraph 10.23.

(f) When the presentation or classification of items in the financial statements is changed, the disclosures set out in paragraphs 3.12 and 3.13.

(g) Where an asset or liability relates to more than one item in the statement of financial position, the relationship of such asset or liability to the relevant items.

(h) When **fixed assets** are measured at revalued amounts (in accordance with paragraph 9.26(b), paragraph 14.4(c), paragraph 15.9(c), paragraphs 17.15B to 17.15F or paragraphs 18.18B to 18.18H), a table showing:

(i) movements in the revaluation reserve in the reporting period, with an explanation of the tax treatment of the items therein (for example, as would otherwise be required by paragraph 6.3A and paragraph 29.27(a)); and

(ii) the carrying amount in the statement of financial position that would have been recognised had the fixed assets not been revalued (for example, as set out in paragraph 17.32A(d) and paragraph 18.29A(d)).

(i) When fixed assets (other than listed investments) are measured at revalued amounts (in accordance with paragraphs 17.15B to 17.15F or paragraphs 18.18B to 18.18H):

(i) the years in which the assets were valued (in accordance with paragraph 17.32A(a)) and the revalued amounts; and

(ii) for fixed assets that have been revalued during the reporting period, the names of the persons who valued them or particulars of their qualifications and the bases of valuation (in accordance with paragraph 17.32A(c) and paragraph 34.55(e)(ii)).

(j) When **financial instruments** or other assets are measured at **fair value** through profit or loss (in accordance with paragraph 9.26(c), paragraphs 11.14(b) and 11.14(d)(i), paragraph 12.8, paragraph 13.4A, paragraph 14.4(d), paragraph 15.9(d), paragraph 16.7 or paragraph 34.4):

(i) the significant assumptions underlying the valuation models and techniques used where a quoted price in an **active market** is not available (for example, as set out in paragraph 11.43, paragraph 16.10(a) and paragraph 34.7(b));

(ii) for each category of financial instrument or other asset, the fair value, the changes in value included directly in the income statement and changes in value included in equity (for example, as set out in paragraphs 11.41(a), 11.41(d), 11.48(a)(i) and 11.48(a)(ii), paragraphs 12.28 and 12.29(c), paragraph 16.10(e)(ii) and paragraph 34.7(c)(i));

(iii) for each class of **derivative**, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future **cash flows**; and

(iv) a table showing movements in equity during the reporting period (for example, as set out in paragraph 6.3A and paragraphs 12.29(c) and 12.29(d)).

(k) When financial instruments are measured at fair value and are within the scope of paragraph 11.48A, the disclosures set out in that paragraph.

(l) The total amount of any financial commitments, guarantees and contingencies that are not included in the statement of financial position (for example, as set out in paragraph 15.19(d), paragraph 16.10(d), paragraph 17.32(b), paragraph 18.28(d), paragraph 20.16, paragraphs 21.15 and 21.16, paragraphs 28.40A(a), 28.40A(b) and 28.41A(d), paragraph 33.9(b)(ii) and paragraph 34.62), and an indication of the nature and form of any valuable security given in respect of them (for example, as set out in paragraph 11.46, paragraph 13.22(e), paragraph 17.32(a) and paragraph 18.28(c)); any commitments concerning pensions and any commitments concerning the entity's parent, fellow **subsidiaries**, subsidiaries, jointly controlled entities and associates shall be disclosed separately.

(m) The amount of advances and credits granted to its directors, with indications of the interest rates, main conditions and any amounts repaid or written off or waived, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category (for example, as set out in paragraph 33.9).

(n) The amount and nature of any individual items of income or expenditure of exceptional size or incidence.

(o) Amounts owed by the small entity:

   (i) becoming due and payable after more than five years showing separately amounts payable by instalments; and

   (ii) covered by valuable security furnished by the small entity, with an indication of the nature and form of the security (for example, in accordance with paragraph 11.46, paragraph 13.22(e), paragraph 17.32(a) and paragraph 18.28(c)).

(p) The average number of employees during the reporting period.

(q) For each classification of fixed assets shown in the statement of financial position or in the notes (including fixed asset investments and in accordance with paragraph 16.10(e), paragraphs 17.31(d) and (e), paragraphs 18.27(c) and (e) and paragraphs 34.55(e) and (f) (insofar as they relate to heritage assets recognised in the statement of financial position)):

   (i) the purchase price or production cost or, where an alternative basis of measurement has been followed, the fair value or revalued amount at the beginning and end of the reporting period;

   (ii) additions, disposals and transfers during the reporting period;

   (iii) the accumulated **depreciation** and **impairment losses** at the beginning and end of the reporting period;

   (iv) separately, depreciation and impairment losses recognised during the reporting period;

   (v) movements in accumulated depreciation and impairment losses in respect of additions, disposals and transfers during the reporting period; and

   (vi) when an entity adopts a policy of capitalising **borrowing costs** (see paragraph 25.2), the amount capitalised during the reporting period (in accordance with paragraph 25.3A(a)).

(r) For fixed assets, including fixed asset investments, when impairment losses are recognised, or reversed, the disclosures set out in paragraph 27.32;

(s) When the small entity is a subsidiary, the name and registered office of the small entity's parent or, if the parent does not produce **consolidated financial statements**, the next most senior parent that does (for example, in accordance with paragraph 33.5).

(t) The nature and business purpose of the small entity's arrangements that are not included in the statement of financial position, provided that the risks and benefits arising from such arrangements are material and in so far as the disclosure of such risks or benefits is necessary for the purposes of assessing the financial position of the small entity.

(u) The nature and the financial effect of material non-adjusting events after the end of the reporting period (in accordance with paragraphs 32.10 and 32.11).

(v) **Related party transactions** that have not been concluded under normal market conditions with the following:

   (i) **owners** holding **significant influence** over the reporting entity;

   (ii) entities which are associates, jointly controlled entities or subsidiaries of the reporting entity; and

   (iii) the entity's directors or equivalent governing body.

   Disclosure shall include the amount of the transactions, the nature of the related party relationship and other information about the transactions necessary for an understanding of the financial position of the small entity. Information about individual transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the small entity (for example, as set out in paragraphs 33.9 and 33.14).

Disclosures need not be given of transactions entered into between two or more members of a **group**, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member, as set out in paragraph 33.1A.

The paragraphs of Sections 8 to 35 of this [draft] FRS that are cross-referenced above are also highlighted in those sections by including an * in the left-hand margin.

1A.15 A small entity is encouraged to make the following disclosures:

(a) a statement of compliance with this [draft] FRS as set out in paragraph 3.3;

(b) if relevant, a statement that it is a public benefit entity as set out in paragraph PBE3.3A;

(c) if relevant, the disclosures relating to going concern set out in paragraph 3.9;

(d) dividends declared and paid or payable during the period (for example, as set out in paragraph 6.5(b)); and

(e) on first-time adoption of this [draft] FRS an explanation of how the transition has affected its financial position and financial performance as set out in paragraph 35.13.

[Draft] Amendments to Section 3 *Financial Statement Presentation*

7 The following paragraphs set out the [draft] amendments to Section 3 *Financial Statement Presentation* (deleted text is struck through, inserted text is underlined).

8 Paragraph 3.1A is inserted as follows:

3.1A A **small entity** is not required to comply with paragraphs 3.3, PBE3.3A, 3.9, 3.17 and 3.24(b). Presentation requirements for small entities are set out in Section 1A *Small Entities*.

9 Paragraph 3.2 is amended as follows:

3.2 Financial statements shall present fairly the financial position, financial performance and, when required to be presented, cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Section 2 *Concepts and Pervasive Principles*.

(a) The application of this FRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and, when required to be presented, cash flows of entities within the scope of this FRS.

(b) [Not used]

The additional disclosures referred to in (a) are necessary when compliance with the specific requirements in this FRS is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

[Draft] Amendments to Section 4 *Statement of Financial Position*

10 The following paragraphs set out the [draft] amendments to Section 4 *Statement of Financial Position* (deleted text is struck through, inserted text is underlined).

11 Paragraph 4.1A is inserted as follows:

4.1A A **small entity** is not required to comply with this section. Presentation requirements for small entities are set out in Section 1A *Small Entities*.

12 Paragraphs 4.2A and 4.2B are inserted as follows:

4.2A An entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations and adapt one of the balance sheet formats shall, as a minimum, include in its statement of financial position line items that present the following, distinguishing between those items that are **current** and those that are **non-current**:

(a) **cash** and **cash equivalents**;

(b) trade and other receivables;

(c) **financial assets** (excluding amounts shown under (a), (b), (j) and (k));

(d) **inventories**;

(e) **property, plant and equipment**;

(f) **investment property** carried at **fair value** through **profit or loss**;

(g) **intangible assets**;

(h) **biological assets** carried at cost less accumulated **depreciation** and impairment;

(i) biological assets carried at fair value through profit or loss;

(j) investments in **associates**;

(k) investments in **jointly controlled entities**;

(l) trade and other payables;

(m) financial liabilities (excluding amounts shown under (l) and (p));

(n) liabilities and assets for **current tax**;

(o) **deferred tax liabilities** and **deferred tax assets** (these shall always be classified as non-current);

(p) **provisions**;

(q) **non-controlling interest**, presented within equity separately from the equity attributable to the owners of the **parent**; and

(r) equity attributable to the owners of the parent.

4.2B An entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations shall also disclose, either in the statement of financial position or in the **notes**, the following subclassifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) trade and other receivables showing separately amounts due from **related parties**, amounts due from other parties, and receivables arising from accrued income not yet billed;

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business;

(ii) in the process of production for such sale; and

(iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;

(e) provisions for **employee benefits** and other provisions; and

(f) classes of equity, such as paid-in capital, share premium, retained earnings and any other components of equity that are presented separately in accordance with this [draft] FRS or company law.

13 Paragraph 4.4A is amended as follows:

4.4A Unless an entity chooses to apply paragraph 1A(1) of Schedule 1 to the Regulations, ~~I~~in instances where the amount of debtors due after more than one year is so **material** in the context of the total net current assets that in the absence of disclosure of the debtors due after more than one year on the face of the statement of financial position readers may misinterpret the **financial statements**, the amount should be disclosed on the face of the statement of financial position within current assets. In most cases it will be satisfactory to disclose the amount due after more than one year in the **notes** to the financial statements.

[Draft] Amendments to Section 5
Statement of Comprehensive Income and Income Statement

14 The following paragraphs set out the [draft] amendments to Section 5 *Statement of Comprehensive Income and Income Statement* (deleted text is struck through, inserted text is underlined).

15 Paragraph 5.1A is inserted as follows:

5.1A A **small entity** is not required to comply with this section. Presentation requirements for small entities are set out in Section 1A *Small Entities*.

16 Paragraph 5.5B is inserted as follows:

5.5B An entity choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations and adapt one of the profit and loss account formats shall, as a minimum, include in its statement of comprehensive income line items that present the following amounts for the period:

(a) **revenue**;

(b) finance costs;

(c) share of the profit or loss of investments in **associates** (see Section 14 *Investments in Associates*) and **jointly controlled entities** (see Section 15 *Investments in Joint Ventures*) accounted for using the equity method;

(d) tax expense excluding tax allocated to items (g) and (h) below (see paragraph 29.27);

(e) as set out in paragraph 5.7E (including a column identified as discontinued operations) a single amount comprising the total of:

(i) the post-tax profit or loss of a **discontinued operation**, and

(ii) the post-tax gain or loss recognised on the remeasurement of the impairment or on the disposal of the **assets** or **disposal group(s)** constituting discontinued operations.

(f) profit or loss;

(g) each item of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of other comprehensive income of associates and jointly controlled entities accounted for by the equity method; and

(i) total comprehensive income (if an entity has no items of other comprehensive income this line need not be presented).

17 New paragraph 5.7A is inserted after paragraph 5.7 as follows:

5.7A An entity choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations and adapt one of the profit and loss account formats shall, as a minimum, include in its income statement line items that present the amounts in paragraphs 5.5B(a) to 5.5B(f), with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraphs 5.5B(g) to 5.5B(i) and paragraph 5.6 for the period.

18 Existing paragraphs 5.7A to 5.7E are renumbered as paragraphs 5.7B to 5.7F.

19 In renumbered paragraph 5.7E the terms ‘discontinued operation’, ‘assets’ and ‘disposal group(s)’ are no longer shown in bold type.

20 New paragraph 5.10 is inserted below the sub-heading *Ordinary activities and extraordinary items* as follows:

5.10 An entity applying paragraph 5.5(a) or 5.7(a) shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

Paragraphs 5.10A and 5.10B apply to entities applying paragraphs 5.5(b), 5.5(c), 5.5(d), 5.7(b), 5.7(c) or 5.7(d).

21 The existing paragraph 5.10 is renumbered as paragraph 5.10A and the existing paragraph 5.10A is renumbered as paragraph 5.10B.

[Draft] Amendments to Section 6
Statement of Changes in Equity and Statement of Income and Retained Earnings

22 The following paragraphs set out the [draft] amendments to Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* (deleted text is struck through, inserted text is underlined).

23 Paragraph 6.1A is inserted as follows:

6.1A A **small entity** is not required to comply with this section. Presentation requirements for small entities are set out in Section 1A *Small Entities*. Paragraph 1A.4 encourages a small entity to present a statement of changes in equity.

[Draft] Amendments to Section 7 *Statement of Cash Flows*

24 The following paragraphs set out the [draft] amendments to Section 7 *Statement of Cash Flows* (deleted text is struck through, inserted text is underlined).

25 Paragraph 7.1A is inserted as follows:

7.1A A **small entity** is not required to comply with this section.

[Draft] Amendments to Section 9 *Consolidated and Separate Financial Statements*

26 The following paragraphs set out the [draft] amendments to Section 9 *Consolidated and Separate Financial Statements* (deleted text is struck through, inserted text is underlined).

27 Paragraph 9.3 is amended as follows:

9.3 A parent is exempt from the requirement to prepare consolidated financial statements on any of the following grounds:

(a) The parent is a wholly-owned subsidiary and its immediate parent is established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions set out in section 400(2) of the Act.

(b) The parent is a 90%-owned subsidiary and the remaining owners have approved the exemption. Exemption is conditional on compliance with certain further conditions set out in section 400(2) of the Act.~~majority-owned subsidiary and meets all the conditions for exemption as a wholly-owned subsidiary set out in section 400(2) of the Act as well as the additional conditions set out in section 400(1)(b) of the Act~~.

(bA) Where the parent is a subsidiary with more than 50% but less than 90% of its equity held by its parent, and notice requesting the preparation of consolidated financial statements has not been served by owners holding at least 5% of its equity, in accordance with section 400(1)(c) of the Act. Exemption is conditional on compliance with certain further conditions set out in section 400(2) of the Act.

(c) The parent is a wholly-owned subsidiary of another entity and that parent is not established under the law of an EEA State. Exemption is conditional on compliance with certain further conditions set out in section 401(2) of the Act.

(d) The parent is a 90%-owned subsidiary and the remaining owners have approved the exemption. Exemption is conditional on compliance with certain further conditions set out in section 401(2) of the Act.~~majority-owned subsidiary and meets all of the conditions for exemption as a wholly-owned subsidiary set out in section 401(2) of the Act as well as the additional conditions set out in section 401(1)(b) of the Act~~.

(dA) Where the parent is a subsidiary with more than 50% but less than 90% of its equity held by its parent, and notice requesting the preparation of consolidated financial statements has not been served by owners holding at least 5% of its equity, in accordance with section 401(1)(c) of the Act. Exemption is conditional on compliance with certain further conditions set out in section 401(2) of the Act.

(e) The parent, the group headed by it, qualify as small as set out in section 383 of the Act and the group is not ineligible as set out in section 384 of the Act (unless it is exempt from being ineligible for the purposes of consolidated financial statements as set out in section 399(2A) of the Act).

(f) All of the parent's subsidiaries are required to be excluded from consolidation by paragraph 9.9.

(g) For a parent~~s~~ not reporting under the Act, if its statutory framework does not require the preparation of consolidated financial statements.

In sub-paragraphs (a) to (dA), the parent is not exempt if any of its securities are admitted to trading on a regulated market of any EEA State within the meaning of Directive 2004/39/EC.

[Draft] Amendments to Section 11
Basic Financial Instruments

28 The following paragraphs set out the [draft] amendments to Section 11 *Basic Financial Instruments* (deleted text is struck through, inserted text is underlined).

29 Paragraph 11.2 is amended as follows:

11.2 An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the **recognition** and **measurement** provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A or 12.25B; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* and/or IAS 39 (as amended following the publication of IFRS 9) subject to the restriction in paragraph 11.2A, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A or 12.15B;

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an **accounting policy** choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.

30 Paragraph 11.2A is inserted as follows:

11.2A An entity that has made the accounting policy choice in paragraph 11.2(c) to apply the recognition and measurement provisions of IFRS 9 shall depart from the provisions of IFRS 9 as follows:

A financial asset that is not permitted by the **Small Companies Regulations**, the **Regulations** or the **LLP Regulations** to be measured at **fair value** though **profit or loss** shall be measured at **amortised cost** in accordance with paragraphs 5.4.1 to 5.4.4 of IFRS 9.

31 In paragraph 11.7(d) the term 'fair value' is no longer shown in bold type.

32 In paragraph 11.10(b) the term 'profit or loss' is no longer shown in bold type.

33 Examples – financial assets, example 1 following paragraph 11.13 is amended as follows:

1 For a long-term loan at a market rate of interest made to another entity, a receivable is recognised at the amount of the cash advanced ~~present value of cash receivable (including interest payments and repayment of principal) from~~ to that entity plus transaction costs incurred by the entity (see the example following paragraph 11.20).

34 Examples – financial liabilities, example 1 following paragraph 11.13 is amended as follows:

> 1 For a loan received from a bank at a market rate of interest, a payable is recognised initially at the amount of the cash received from the bank less separately incurred transaction costs~~present value of cash payable to the bank (eg including interest payments and repayment of principal)~~ (which is equal to the transaction price less transaction costs).

35 In paragraph 11.14(a) the term 'amortised cost' is no longer shown in bold type.

36 Paragraph 11.48A is amended as follows:

11.48A The following disclosures are required only for financial instruments at fair value through profit or loss that are not held as part of a trading portfolio and are not derivatives:

(a) The amount of change, during the period and cumulatively, in the fair value of the financial instrument that is attributable to changes in the credit risk of that instrument, determined either:

(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to **market risk**; or

(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the instrument.

(b) The method used to establish the amount of change attributable to changes in own credit risk, or, if the change cannot be measured reliably or is not **material**, that fact.

(c) For a financial liability, t~~T~~he difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(d) If an instrument contains both a liability and an equity feature, and the instrument has multiple features that substantially modify the cash flows and the values of those features are interdependent (such as a callable convertible debt instrument), the existence of those features.

(e) If there is a difference between the fair value of a financial instrument at initial recognition and the amount determined at that date using a valuation technique, ~~Any~~ the aggregate difference ~~between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique, and the amount~~ yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of the changes in the balance of this difference.

(f) Information that enables users of the entity's financial statements to evaluate the nature and extent of relevant risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, **liquidity risk** and market risk. The disclosure should include both the entity's exposure to each type of risk and how it manages those risks.

[Draft] Amendments to Section 12
Other Financial Instruments Issues

37 The following paragraphs set out the [draft] amendments to Section 12 *Other Financial Instruments Issues* (deleted text is struck through, inserted text is underlined).

38 Paragraph 12.2 is amended as follows:

12.2 An entity shall choose to apply either:

(a) the provisions of both Section 11 and Section 12 in full; or

(b) the **recognition** and **measurement** provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A or 12.25B; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* and/or IAS 39 (as amended following the publication of IFRS 9) <u>subject to the restriction in paragraph 12.2A</u>, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A or 12.15B;

to account for all of its financial instruments. Where an entity chooses (b) or (c) it applies the scope of the relevant standard to its financial instruments. An entity's choice of (a), (b) or (c) is an **accounting policy** choice. Paragraphs 10.8 to 10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted for and what information should be disclosed about the change.

39 Paragraph 12.2A is inserted as follows:

<u>12.2A An entity that has made the accounting policy choice in paragraph 12.2(c) to apply the recognition and measurement provisions of IFRS 9 shall depart from those provisions of IFRS 9 as follows:</u>

<u>A financial asset that is not permitted by the **Small Companies Regulations**, the **Regulations** or the **LLP Regulations** to be measured at **fair value** though **profit or loss** shall be measured at **amortised cost** in accordance with paragraphs 5.4.1 to 5.4.4 of IFRS 9.</u>

40 In paragraph 12.7 the term 'fair value' is no longer shown in bold type.

41 In paragraph 12.8 and 12.8(c) the terms 'profit or loss', 'Regulations', 'LLP Regulations' and 'amortised cost' are no longer shown in bold type.

[Draft] Amendments to Section 13 *Inventories*

42 The following paragraphs set out the [draft] amendments to Section 13 *Inventories* (deleted text is struck through, inserted text is underlined).

43 Paragraph 13.3 is amended as follows:

13.3 Other than the disclosure requirements in paragraph 13.22 ~~T~~this section does not apply to the **measurement** of inventories ~~measured~~ at **fair value less costs to sell** through **profit or loss** at each **reporting date.** Inventories shall not be measured at fair value less costs to sell unless it is a more relevant measure of the entity's **performance** because the entity operates in an **active market** where sale can be achieved at published prices, and inventory is a store of readily realisable value.

44 Paragraph 13.4A is amended as follows:

13.4A **Inventories held for distribution at no or nominal consideration** shall be measured at the lower of cost adjusted, when applicable, for any loss of **service potential** and replacement cost.

[Draft] Amendments to Section 18
Intangible Assets other than Goodwill

45 The following paragraphs set out the [draft] amendments to Section 18 *Intangible Assets other than Goodwill* (deleted text is struck through, inserted text is underlined).

46 Paragraph 18.20 is amended as follows:

18.20 If<u>, in exceptional cases,</u> an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall not exceed ~~five~~<u>10</u> years.

[Draft] Amendments to Section 19 *Business Combinations and Goodwill*

47 The following paragraphs set out the [draft] amendments to Section 19 *Business Combinations and Goodwill* (deleted text is struck through, inserted text is underlined).

48 Paragraph 19.23(a) is amended as follows:

19.23(a) An entity shall follow the principles in paragraphs 18.19 to 18.24 for amortisation of goodwill. Goodwill shall be considered to have a finite **useful life**, and shall be amortised on a systematic basis over its life. If<u>, in exceptional cases,</u> an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall not exceed ~~five~~<u>10</u> years.

49 Paragraph 19.25(g) is amended as follows:

19.25(g) the useful life of goodwill, and if this <u>cannot be reliably estimated</u> ~~exceeds five years~~, supporting reasons for <u>the period chosen</u>~~this~~; and

[Draft] Amendments to Section 21 *Provisions and Contingencies*

50 The following paragraphs set out the [draft] amendments to Section 21 *Provisions and Contingencies*.

51 Paragraph 21.17 is deleted and replaced with [Not used].

[Draft] Amendments to Section 27 *Impairment of Assets*

52 The following paragraphs set out the [draft] amendments[1] to Section 27 *Impairment of Assets* (deleted text is struck through, inserted text is underlined).

53 Paragraph 27.28 is amended as follows:

27.28 An impairment loss recognised for ~~all assets, including~~ goodwill~~,~~ shall not be reversed in a subsequent period ~~if and only if the reasons for the impairment loss have ceased to apply~~.

54 Paragraph 27.29 is amended as follows:

27.29 For all assets other than goodwill, if the reasons for the impairment loss have ceased to apply, an impairment loss shall be reversed in a subsequent period. An entity ...

55 Paragraph 27.31 is amended as follows:

27.31 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset, including goodwill belongs, the following requirements apply:

(a) The entity shall estimate the recoverable amount of that cash-generating unit at the current reporting date.

(b) If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The entity shall allocate the amount of that reversal to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets ~~and goodwill in the order set out below~~, subject to the limitation described in (c) below. Those increases in carrying amounts shall be treated as reversals of impairment losses and recognised immediately in profit or loss unless an asset is carried at revalued amount in accordance with another section of this FRS (for example, the revaluation model in Section 17 *Property, plant and equipment*). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with the relevant section of this FRS.

~~(i) First the assets (other than goodwill) of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit; and~~

~~(ii) then to any goodwill allocated to the cash-generating unit.~~

(c) In allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of:

(i) its recoverable amount; and

(ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

(d) Any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) above shall be allocated pro rata to the other assets of the cash-generating unit, except for goodwill.

[1] Subject to additional changes that are expected to be made to the legislation.

(e) After a reversal of an impairment loss is recognised, if applicable, the entity shall adjust the depreciation (amortisation) charge for each asset in the cash-generating unit in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

[Draft] Amendments to Section 33 *Related Party Disclosures*

56 The following paragraphs set out the [draft] amendments to Section 33 *Related Party Disclosures* (deleted text is struck through, inserted text is underlined).

57 Paragraph 33.2 is amended as follows:

33.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

(a) A person or a **close member of that person's family** is related to a reporting entity if that person:

(i) has **control** or **joint control** over the reporting entity;

(ii) has **significant influence** over the reporting entity; or

(iii) is a member of the **key management personnel** of the reporting entity or of a **parent** of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:

(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an **associate** or **joint venture** of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third entity.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) <u>the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.</u>

[Draft] Amendments to Section 34
Specialised Activities

58 The following paragraphs set out the [draft] amendments to Section 34 *Specialised Activities* (deleted text is struck through, inserted text is underlined).

59 Paragraph PBE34.80 is amended as follows:

PBE34.80 Unless it is not permitted by the statutory framework under which a public benefit entity reports, a~~A~~n entity combination that is a merger shall apply merger accounting as prescribed below. If merger accounting is not permitted an entity combination shall be accounted for as an acquisition in accordance with Section 19.

60 Paragraph PBE34.81 is amended as follows:

PBE34.81 Any entity combination:

(a) which is neither a combination that is in substance a gift nor a merger; or

(b) where merger accounting is not permitted by the statutory framework under which a public benefit entity reports

shall be accounted for as an acquisition in accordance with Section 19.

[Draft] Amendments to Appendix I: Glossary

61 The following glossary term and definition, and footnote 28 (subsequent footnotes will be renumbered sequentially), are deleted:

~~**FRSSE**~~	~~The extant version[28] of the *Financial Reporting Standard for Smaller Entities*.~~

~~[28] At the date of issue of this FRS, the extant version of the FRSSE is the *Financial Reporting Standard for Smaller Entities* (effective April 2008). The *Financial Reporting Standard for Smaller Entities* (effective January 2015) will replace it as the extant standard from 1 January 2015.~~

62 The following glossary terms and definitions are inserted in alphabetical order:

[Draft] FRS 105	[Draft] FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*
non-current assets	**Assets** of the entity which: (a) it does not expect to realise, or intend to sell or consume, in its normal operating cycle; (b) it does not hold primarily for the purpose of trading; (c) it does not expect to realise within 12 months after the **reporting period**; nor (d) are **cash** or **cash equivalents** unless the assets are restricted from being exchanged or used to settle a **liability** for at least 12 months after the reporting period.
Small Companies Regulations	The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409)
small entity	(a) A company meeting the definition of a small company as set out in section 382 or 383 of the **Act** and not excluded from the small companies regime by section 384; (b) an LLP qualifying as small and not excluded from the small LLPs regime, as set out in the **LLP Regulations**; or (c) any other entity that would have met the criteria in (a) had it been a company incorporated under company law.

63 The following glossary terms and definitions are amended as follows (deleted text is struck through, inserted text is underlined) (footnote 30 is not amended and is not reproduced here):

current assets	**Assets** of the entity which: (a) for an entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations, are not **non-current assets**; (b) for all other entities, are not fixed assets~~intended for use on a continuing basis in the entity's activities~~.

related party	A related party is a person or entity that is related to the entity that is preparing its **financial statements** (the reporting entity). (a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has **control** or **joint control** over the reporting entity; (ii) has **significant influence** over the reporting entity; or (iii) is a member of the **key management personnel** of the reporting entity or of a **parent** of the reporting entity. (b) An entity is related to a reporting entity if any of the following conditions apply: (i) the entity and the reporting entity are members of the same **group** (which means that each parent, **subsidiary** and fellow subsidiary is related to the others). (ii) one entity is an **associate** or **joint venture** of the other entity (or of a member of a group of which the other entity is a member). (iii) both entities are joint ventures of the same third entity. (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity. (v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. (vi) the entity is controlled or jointly controlled by a person identified in (a). (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.
turnover	The amounts derived from the provision of goods and services ~~falling with an entity's ordinary activities,~~ after deduction of: (a) trade discounts; (b) value added tax; and (c) any other taxes based on the amounts so derived.

[Draft] Amendments to Appendix II: Significant differences between FRS 102 and the IFRS for SMEs

64 The following amendments are made to the table (deleted text is struck through, inserted text is underlined):

Section		Changes to the IFRS for SMEs
1A	Small Entities	This section has been inserted to set out the information that is to be presented and disclosed in the financial statements of a small entity, based on the legal framework for small companies.
5	Statement of Comprehensive Income and Income Statement	The requirements of this section have predominantly been removed and replaced by the requirements set out in the Act. Entities that do not report under the Act comply with the requirements of this section and of the Regulations except to the extent that these requirements are not permitted by any statutory framework under which such entities report. Paragraph 5.10 has been amended and paragraphs 5.10A and 5.10B ~~is~~are inserted to comply with the ~~Act~~Regulations and include~~s~~ the definition of an extraordinary item.
11	Basic Financial Instruments	The scope of Section 11 is amended to clarify that certain financial instruments are not within its scope. Paragraph 11.2A is inserted to ensure that an entity choosing to apply the recognition and measurement requirements of IFRS 9 complies with the Regulations. Paragraph 11.8(b) is amended to clarify that instruments as described in paragraph 11.6(b) are not debt instruments accounted for under Section 11. Paragraph 11.9(a) is amended to clarify the permissible contractual returns to the lender. Paragraph 11.9(aA) is added to include some contractual provisions that provide for a linkage of repayments and/or returns to the lender based on inflation. Paragraph 11.9(aB) is added to permit certain variations of the return to the holder during the life of the instrument.

Section		Changes to the IFRS for SMEs
		Paragraph 11.9(c) is amended to clarify that contractual prepayment provisions which are contingent future events exclude those which protect the holder from credit deterioration, changes in central bank levies or tax changes and to clarify when compensation payments do not breach the condition. The text of paragraph 11.9(d) is deleted as it is no longer needed. Paragraph 11.9(e) is added to permit certain contractual extension options. Examples are inserted after paragraph 11.9 to illustrate the application of paragraph 11.9. Paragraphs 11.11(b) and (c) are deleted as the instruments shown as examples are excluded from debt instruments within the scope of Section 11 under paragraph 11.8(b). Paragraph 11.14(b) is inserted to clarify that entities may choose to designate debt instruments and loan commitments as fair value through profit or loss under certain circumstances. Paragraph 11.38A is inserted to allow offsetting of certain financial assets and financial liabilities in the statement of financial position. Paragraph 11.48A is inserted to provide disclosures required in accordance with the Regulations for certain financial instruments ~~that are not held as part of a trading portfolio and are not derivatives~~ held at fair value. Paragraphs 11.48B and 11.48C require additional disclosures for financial institutions.
12	Other Financial Instruments Issues	The scope of Section 12 is amended to exclude financial instruments issued by an entity with a discretionary participation feature, reimbursement assets and financial guarantee contracts. Paragraph 12.2A is inserted to ensure that an entity choosing to apply the recognition and measurement requirements of IFRS 9 complies with the Regulations.

Section		Changes to the IFRS for SMEs
		Paragraph 12.8(c) is added to clarify when financial instruments within the scope of Section 12 should ~~not~~ be measured at amortised cost. Paragraphs 12.15 to 12.29 are deleted and replaced with paragraphs 12.15 to 12.29A to include revised hedge accounting requirements which have the following effect: (a) the scope of permissible hedged items and hedging instruments is expanded; (b) the hedge accounting conditions are revised and simplified; (c) it determines three hedge accounting models, ie cash flow, fair value and net investment hedges; (d) it clarifies that the cumulative amount of foreign exchange differences relating to a hedge of a net investment in a foreign operation is not reclassified to profit or loss on disposal or partial disposal; and (e) it introduces a documentation requirement in cases of voluntary hedge accounting discontinuation. Paragraph 12.25B is inserted to allow offsetting of certain financial assets and financial liabilities in the statement of financial position. Paragraph 12.26 is amended to comply with requirements set out in the Act. The Appendix to Section 12 is inserted to illustrate by way of example the application of the hedge accounting requirements.
13	Inventories	<u>Paragraph 13.3 is amended to permit inventory to be measured at fair value less costs to sell through profit and loss in certain circumstances.</u> Paragraphs 13.4A and 13.20A are inserted to provide guidance on inventories held for distribution at no or nominal consideration. Paragraph 13.5A is inserted to provide guidance on inventory acquired through non-exchange transactions. Paragraph 13.8A is inserted to clarify the treatment for provisions made against

Section		Changes to the IFRS for SMEs
		dismantling and restoration costs (of PPE) in the cost of inventory. Paragraph 13.12 is deleted because of the revisions to the hedge accounting requirements. Paragraph 13.15 is amended to allow for the inclusion of a cost model for agricultural produce in Section 34 *Specialised Activities*.
19	Business Combinations and Goodwill	Section 19 is amended to permit the use of the merger accounting method for group reconstructions. The merger method is set out in paragraphs 19.29 to 19.33. Paragraphs 19.15A to 19.15C are inserted to provide guidance on the treatment of deferred tax assets or liabilities, employee benefit arrangements and share-based payments of a subsidiary on acquisition. ~~Paragraph 19.23(a) is amended to comply with company law such that, where an entity is unable to make a reliable estimate of the useful economic life of goodwill, the life shall be presumed not to exceed five years rather than 10 years as set out in the IFRS for SMEs.~~ Paragraph 19.24 is amended and paragraph 19.26A is inserted to comply with the requirements of the Act for bargain purchases (negative goodwill).
27	Impairment of Assets	Paragraph 27.20A is inserted to provide guidance on the treatment of impairments on assets held for their service potential. ~~Paragraph 27.31 is amended to allow the reversal of impairment losses against goodwill.~~
33	Related Party Disclosures	Paragraph 33.1A is inserted to include the exemption from disclosure of related party transactions for wholly-owned entities available in the Act. The definition of a related party in paragraph 33.2 is amended for consistency with company law.

[Draft] Amendments to Appendix IV: Note on legal requirements

65 The following paragraphs set out the [draft] amendments to Appendix IV: Note on legal requirements (deleted text is struck through, inserted text is underlined).

66 Paragraph A4.3 is amended as follows:

A4.3 References to the Act in this appendix are to the *Companies Act 2006*. References to the Regulations are to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410). References to specific provisions are to Schedule 1 to the Regulations; entities applying Schedules 2, 3 or 6 should read them as referring to the equivalent paragraph in those schedules; and small entities applying the Small Companies Regulations should read them as referring to the equivalent paragraph in Schedule 1 to the Small Companies Regulations.

67 Paragraph A4.5 is amended as follows (footnote 36 is not amended and not repeated here):

A4.5 All other entities, except those that are eligible to apply ~~the *Financial Reporting Standard for Smaller Entities* (effective January 2015) (FRSSE)~~ [draft] FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, must apply[36] either FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, EU-adopted IFRS or FRS 101 Reduced Disclosure Framework (if the financial statements are the individual financial statements of a qualifying entity eligible to apply FRS 101 ~~*Reduced Disclosure Framework*~~).

68 The sub-heading ***Small Companies*** is inserted after paragraph A4.11, and paragraphs A4.11A to A4.11C are inserted below it:

A4.11A The definition of a small company is contained in sections 382 and 383 of the Act; certain companies are excluded from the small companies regime by section 384. Subject to certain conditions and exclusions, the qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

(a) Turnover	£10.2 million
(b) Balance sheet total	£5.1 million
(c) Average number of employees	50

A4.11B The Small Companies Regulations set out the small companies regime. Although FRS 102 was developed on the basis of the Regulations (which apply to large and medium-sized companies) the main differences between the two relate to presentation and disclosure requirements, and therefore the recognition and measurement requirements of FRS 102 should also be consistent with the Small Companies Regulations.

A4.11C In accordance with section 393 of the Act the directors of any company, including a small company, must not approve accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the company. In order to achieve this a company, including a small company, may need to provide disclosures additional to those required by company law. In relation to small companies paragraph 1A.12 of FRS 102 reflects this requirement and paragraph 1A.13 encourages a small company to consider all other disclosures in FRS 102 to determine any additional disclosures to provide.

69 Paragraph A4.12 is amended as follows:

A4.12 All preparers of Companies Act accounts must comply with the requirements of paragraph 36 of Schedule 1 to the Regulations, which provides that:

'...

(4) Financial instruments that, under international accounting standards adopted by the European Commission ~~on or before 5th September 2006~~ in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) [...]'

70 Paragraphs A4.12B and A4.12C are inserted as follows:

A4.12B Further, an entity that has made the accounting policy choice in paragraph 11.2(c) or paragraph 12.2(c) to apply the recognition and measurement provisions of IFRS 9 *Financial Instruments* shall depart from those provisions of IFRS 9 where the measurement of financial assets at fair value through profit or loss is not permitted by paragraph 36 of Schedule 1 to the Regulations. This can occur in relation to financial assets because the classification and measurement requirements of IFRS 9 are not identical to the equivalent requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, which is the standard presently adopted by the EU and is therefore the reference point for paragraph 36(4) of Schedule 1 to the Regulations.

A4.12C Paragraph 40 of Schedule 1 to the Regulations requires companies to include fair value gains and losses on financial instruments measured at fair value in the profit and loss account, except when the financial instrument is a hedging instrument or an available for sale security. Therefore, for those companies making the accounting policy choice, in accordance with paragraph 11.2(c) and 12.2(c) of FRS 102, to apply the recognition and measurement requirements of IFRS 9 *Financial Instruments*, recording fair value gains and losses attributable to changes in credit risk in other comprehensive income in accordance with IFRS 9 will usually be a departure from the requirement of paragraph 40 of Schedule 1 to the Regulations, for the overriding purpose of giving a true and fair view.

71 Paragraph A4.13 is amended as follows:

A4.13 An entity applying this FRS and holding financial instruments at fair value ~~either in accordance with Sections 11 or 12 *Other Financial Instruments Issues*~~ may be required to provide the disclosures required by paragraph 36(4) of Schedule 1 to the Regulations. The disclosures ~~as~~ required by paragraph 36(4) have been incorporated into Section 11. Some of the Section 11 disclosure requirements apply to all financial instruments measured at fair value, whilst others (see paragraph 11.48A of FRS 102) apply only to financial instruments that are not held as part of a trading portfolio and are not derivatives. The disclosure requirements of paragraph 11.48A will predominantly apply to certain financial liabilities, however, there may be instances where paragraph 36(3) of Schedule 1 to the Regulations requires that the disclosures must also be provided in relation to financial assets, for example investments in subsidiaries, associates or jointly controlled entities measured at fair value (see paragraph 9.27B of FRS 102).

72 Paragraph A4.30 is amended as follows:

A4.30 Paragraph 10 of Schedule 6 to the Regulations permits the use of merger accounting ~~in certain circumstances~~ for group reconstructions, which is consistent with ~~. FRS 102 requires the application of the purchase method of accounting for all business combinations within the scope of Section 19 *Business*~~

~~*Combinations and Goodwill*, other than group reconstructions. P~~paragraph 19.27 of FRS 102~~permits merger accounting for group reconstructions~~. Section 34 *Specialised Activities* requires that combinations by public benefit entities meeting certain criteria are accounted for as a merger, unless this is not permitted by the relevant statutory framework. FRS 102 therefore ~~restricts the circumstances in which~~ does not extend the use of merger accounting ~~by be applied~~beyond its applicability in company law, or other relevant statutory framework.

73 Paragraph A4.35 is amended as follows:

A4.35 Paragraph 24(1) of Schedule 1 to the Regulations requires that if the net realisable value of any current asset is lower than its purchase price or production cost, the amount to be included in respect of that asset must be the net realisable value. However, paragraph 39~~32(5)~~ permits stocks to be included at their fair value~~current cost~~, when applying ~~the~~ fair value ~~alternative~~ accounting ~~rules~~.

74 Paragraph A4.37 is amended as follows:

A4.37 ~~However, p~~Paragraph 13.4A of FRS 102 requires inventories held for distribution at no or nominal cost to be measured at the lower of cost and replacement cost. ~~Although the alternative accounting rules require measurement at current cost, f~~For inventories, including those held for distribution at no or nominal value (particularly items distributed to beneficiaries by public benefit entities), there is unlikely to be a significant difference between replacement cost and fair value~~current cost~~.

75 Paragraph A4.38 is amended as follows:

A4.38 Sections 1A, 4 and 5 of FRS 102 require entities to apply one of the profit and loss account and balance sheet formats set out in the Small Companies Regulations, Regulations and LLP Regulations, when preparing their statement of comprehensive income (single-statement approach) or income statement (two-statement approach) and statement of financial position, respectively. The *General Rules* preceding *The Required Formats for Accounts* include certain flexibilities permitting adaptation of the formats, providing the adapted presentation is equivalent to that set out in the formats and that it is consistent with generally accepted accounting practice. For entities within its scope FRS 102 sets out a framework for the information to be presented by those entities choosing to adapt the formats.

[Draft] Amendments to Appendix VI: Republic of Ireland (RoI) legal references

76 Appendix VI: Republic of Ireland (RoI) legal references will be updated as appropriate when the Irish legislation implementing the EU Accounting Directive has been made.

The Accounting Council's Advice to the FRC to issue FRED 59: Draft Amendments to FRS 102 – Small entities and other minor amendments

Introduction

1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue 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* incorporating the Council's advice following the Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*.

2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.

3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:

(a) it is apparent that a significant group of stakeholders has not been adequately consulted;

(b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;

(c) insufficient consideration has been given to the timing or cost of implementation; or

(d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.

4 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

5 The Accounting Council is advising the FRC to issue 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.*

6 The Accounting Council advises that these proposals will maintain consistency of accounting standards with company law and will improve the financial reporting by small entities by, for example, requiring the recognition of various financial instruments that the *Financial Reporting Standard for Smaller Entities (effective January 2015)* (FRSSE) does not currently require.

7 When these draft amendments are finalised the Accounting Council's Advice to the FRC in respect of these amendments will be added into FRS 102.

Background

8 The new EU Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council of 26 July 2013) is being implemented in the UK and Republic of Ireland. In doing so there will be changes to company law to reflect new requirements and, where considered appropriate, to take advantage of new options that are available. Accounting

standards are developed within the context of company law and amendments will also be required to accounting standards.

9 In September 2014, the FRC issued a Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*[2] (the Consultation Document), outlining its proposal that small entities will apply FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. It was proposed that a new section would be inserted into FRS 102 setting out the presentation and disclosure requirements applicable to small entities, which would be based on the new legal provisions, and as a consequence the FRSSE would be withdrawn. A small number of other amendments to FRS 102 would also be necessary to maintain consistency with company law. The Accounting Council has considered the responses to the Consultation Document in developing FRED 59.

10 The FRC will produce a comprehensive feedback statement encompassing responses received to FRED 50 *Draft FRC Abstract 1 Residential Management Companies' Financial Statements and Consequential Amendments to the FRSSE*, the Consultation Document, and to FRED 58 *Draft FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime*, FRED 59 and FRED 60 *Draft Amendments to FRS 100 and FRS 101* when the final standards and amendments are issued.

Objective

11 In developing its advice to the FRC, the Accounting Council was guided by the overriding objective to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

12 In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

Small entities regime

13 In the Consultation Document, the FRC proposed that the FRSSE should be withdrawn and that, for small entities ineligible for the micro-entities regime, it should be replaced with a new Section 1A *Small Entities* within FRS 102. It was proposed that Section 1A would set out the presentation and disclosure requirements applicable to small entities, whilst the recognition and measurement requirements of the remainder of FRS 102 would apply. This proposal was supported by the majority of respondents. In particular, respondents supported the proposals that:

(a) the FRSSE should be withdrawn (see FRED 60);

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[2] Available on the FRC website (www.frc.org.uk).

(b) Section 1A should apply to all entities (that are required to prepare financial statements that present a true and fair view) meeting the relevant criteria and not just companies; and

(c) small entities should apply the same recognition and measurement criteria as other entities applying FRS 102.

14 The Accounting Council notes that, whilst the financial statements of a small company must give a true and fair view, the new legal framework for small companies restricts the specific disclosures that may be required of small companies. As these restrictions do not apply to entities that are not companies, the Accounting Council considered whether to have two small entities regimes, one applying to companies and one to other entities. As set out in the Consultation Document, the Accounting Council advises that it may be confusing to have two different sets of presentation and disclosure requirements for small entities, depending on legal form, particularly when the overall objective of the financial statements is the same (that they give a true and fair view), and therefore Section 1A should apply to all entities meeting the relevant criteria.

15 Eligibility for the small companies regime is set out in company law. The Accounting Council advises that Section 1A of FRS 102 should apply to companies eligible for the small companies regime, LLPs eligible for the small LLPs regime and any other entity that would have met the criteria for the small companies regime had they been companies. This is broadly the same as the scope of the FRSSE.

Presentation and disclosure

16 A key feature of the new small companies regime set out in the new Accounting Directive is that it specifies the maximum mandatory disclosures to be included in a small company's financial statements, which may not be added to. However, the financial statements of a small company must still give a true and fair view of the financial performance and financial position of the entity. The directors of a company will need to consider whether additional disclosures are necessary to give a true and fair view and, if so, provide those additional disclosures.

17 The Accounting Council advises that, as the disclosures required by FRS 102 of larger entities are those that are usually considered necessary (but not necessarily sufficient) to give a true and fair view, a small entity should be encouraged to consider all of these disclosures in order to determine the additional disclosures necessary in its own circumstances.

18 In addition the Accounting Council considers that it will be helpful to small entities applying FRS 102 for the disclosures required by law to be included and cross-referenced to the same or similar disclosures elsewhere in FRS 102.

19 There are a small number of specific disclosures that the Accounting Council considers will be particularly useful to users of the financial statements of a small entity, including a statement of compliance with FRS 102 and a note of dividends declared and paid or payable. The Accounting Council advises specifically encouraging small entities to provide these disclosures.

Recognition and measurement

20 The Accounting Council advises that small entities should follow the recognition and measurement requirements of FRS 102. This will improve financial reporting by small entities by, for example, requiring the recognition of various financial instruments that the FRSSE does not currently require, such as derivatives like interest rate swaps and forward foreign currency contracts.

21 In FRED 58 the Accounting Council has considered and applied a set of principles for simplifying the recognition and measurement requirements for micro-entities. For the larger small entities within the scope of FRS 102 the Accounting Council advises that the principle it has applied is that there should not be recognition and measurement differences from the requirements applicable to larger entities. This reinstates the principle of consistency in accounting policies between those entities that are smaller and those that are larger that applied when the FRSSE was originally developed. The majority of respondents to the Consultation Document agreed with this proposal.

22 A small minority of respondents identified a few areas where they considered a difference in recognition and measurement for small entitles might be justified. The Accounting Council considered these suggestions but, bearing in mind the proposal for draft FRS 105 for micro-entities, does not believe there are sufficient reasons to depart from its principle of consistent recognition and measurement requirements for all entities applying FRS 102.

Other minor amendments

23 A small number of other amendments are also necessary to maintain consistency between FRS 102 and company law. This is not a comprehensive review of the requirements of FRS 102.

24 The amendments proposed include:

(a) Greater flexibility in relation to the format of the profit and loss account and balance sheet, which will allow entities choosing this option to adopt a presentation that is closer to that applied by entities preparing 'IAS accounts'. The Accounting Council advises that these new options available in company law should be available to entities applying FRS 102, but that a framework should be provided in FRS 102 to assist entities applying it.

(b) Revisions to certain requirements relating to financial instruments that are, or may be, measured at fair value. The new Accounting Directive permits measurement of certain financial instruments at fair value where it is in accordance with EU-adopted IFRS; previously this was restricted to IFRS endorsed by 5 September 2006. The consequences of this change, as well as any interaction with IFRS 9 *Financial Instruments* that was issued in July 2014 and which an entity may make an accounting policy choice to apply under paragraphs 11.2(c) and 12.2(c), have been considered. As a result, the Accounting Council advises that some amendments are made for compliance with company law, although these are only likely to affect a minority of entities applying FRS 102. In addition, the Note on Legal Requirements advises that entities applying IFRS 9 will need to consider an override of the Regulations for the purposes of giving a true and fair view, in order to recognise certain fair value gains or losses in other comprehensive income.

(c) Revising the maximum period over which goodwill and other intangible assets may be amortised to 10 years, in those exceptional cases where an entity is unable to make a reliable estimate of the asset's useful economic life. The Accounting Council advises that, as this only applies in exceptional cases, the change in the maximum period so soon after it was introduced in the first edition of FRS 102, should have a limited impact in practice.

(d) Prohibiting the reversal of impairment losses for goodwill.

(e) Clarifying that a public benefit entity may apply merger accounting to an entity combination that is a merger provided that it is permitted by the statutory framework under which it reports. The new Accounting Directive only permits companies to apply merger accounting for group reconstructions and the Accounting Council advises that this amendment is made to ensure merger accounting is not applied by public benefit entities that are companies where not permitted in law.

(f) Amending the definitions of a ‘related party’ and ‘turnover’ in accordance with changes in company law.

25 The Accounting Council noted that in relation to small entities, it is proposed that FRS 102 will include all the disclosure requirements set out in company law, but that FRS 102 does not presently include all the equivalent disclosures for larger entities. The majority of respondents to the Consultation Document agreed that the current approach for larger entities should not be amended because this would increase the length of FRS 102 and make it potentially less user-friendly especially as a significant number of larger entities applying FRS 102 are not companies and the additional disclosure requirements would not be applicable to them. Some respondents suggested including any additional disclosures as an appendix, but noted that this could be considered as part of the triennial review of FRS 102. The Accounting Council advises not amending FRS 102 for additional disclosures for larger entities at present, but notes that the suggestion of an appendix could be reconsidered at a later date.

26 The Accounting Council noted that in some areas the amendments made to the Regulations and the Small Companies Regulations make new accounting options available alongside existing requirements. In these areas it is not necessary to amend FRS 102, as it already complies with the existing requirements. The Accounting Council considered the following two areas:

(a) Equity method in individual accounts – paragraph 29A of the Regulations and the Small Companies Regulations permits participating interests to be accounted for in the financial statements of an investor using the equity method. FRS 102 already includes a number of options for accounting for such investments (see paragraph 9.26) and the Accounting Council does not advise introducing this option at present.

(b) Contingent consideration in a business combination – an amendment to paragraph 36 of the Regulations and the Small Companies Regulations would permit contingent consideration in a business combination to be measured and remeasured at fair value, which would be consistent with EU-adopted IFRS (IFRS 3 *Business Combinations* (revised 2008)). The Accounting Council notes that the requirements of FRS 102 are based on IFRS 3 (issued 2004) and does not advise amending the accounting for contingent consideration outside the context of a wider review of the accounting for business combinations. Therefore an amendment to accounting for contingent consideration in a business combination is not proposed at present.

27 In addition, the following amendments are proposed:

(a) Two of the examples following paragraph 11.13 are being amended for clarity.

(b) The reduced disclosures for subsidiaries, set out in paragraphs 1.8 to 1.13, have been amended in relation to financial instruments measured at fair value through profit or loss to ensure they are consistent with company law disclosure requirements.

Residents’ Management Companies (FRED 50)

28 In considering the feedback received from the FRC’s consultation FRED 50, the Accounting Council noted there was no clear consensus on the correct accounting treatment for the preparation of the financial statements of residents’ management companies[3]. Responses to FRED 50 can be found on the FRC website.

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3 An organisation which may be referred to in the lease, which is responsible for the provision of services, and manages and arranges maintenance of the property, but which does not necessarily have any legal interest in the property. As the term implies, all or most of the members of a residents’ management company will be leaseholders.

29 In its Consultation Document the FRC proposed its intention to add a new subsection for residents' management companies (RMCs) into Section 34 *Specialised Activities* of FRS 102.

30 The Accounting Council notes that a significant majority of respondents did not agree with the proposal. 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.

31 The Accounting Council considers that UK financial reporting standards are in general principles-based (not rules-based) and that it expects preparers of financial statements to apply judgement in interpreting and applying its standards to reflect the impact of transactions that the reporting entity is party to.

32 Based on the feedback received, the Accounting Council considers that it is not appropriate to insert a new subsection into FRS 102 but that a clear statement of the legal position is of use. Therefore the Accounting Council advises that no change is made to FRS 102, or any other relevant financial reporting standard (including draft FRS 105).

33 For the avoidance of doubt, the Accounting Council advises that the FRC and the ICAEW have independently obtained legal opinions that state that residents' management companies act as principals, not agents, when transacting with third party suppliers in the management and arrangement of maintenance of a property and therefore it is not appropriate for an RMC to prepare dormant accounts if the RMC has entered into such transactions during the reporting period.

Transitional provisions

34 The Accounting Council considered whether transitional provisions should be provided for small entities applying FRS 102 for the first time. The Accounting Council noted that FRS 102 already includes Section 35 *Transition to this FRS*, which applies to any first-time adopter of FRS 102. This already includes a significant number of optional exemptions from full retrospective application of FRS 102 that are designed to reduce the burden of first-time adoption. This is particularly where it may be difficult to restate historical transactions on the basis otherwise required by FRS 102 because the relevant data would not have been obtained at the time the transaction occurred.

35 The Accounting Council advises that no further transitional provisions are necessary for small entities, that are not already provided for.

Effective date

36 The Accounting Council advises that the amendments set out in this FRED should be effective for accounting periods beginning on or after 1 January 2016, with early adoption permitted in line with the effective date of changes in relevant legislation.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

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8th Floor
125 London Wall
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Comments should be despatched so as to be received no later than 30 April 2015.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

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