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MOORE STEPHENS

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Dear Ms Carter

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

Moore Stephens LLP is pleased to respond to the FRC on the consultation document, implementation of the EU Accounting Directive for small entities.

We are generally supportive of the proposed amendments, with the exception of the FRSME proposals. We do not believe that separate measurement and recognition criteria should be adopted due to the size of a company. Attached to this letter you will find Appendix 1 with our comments to the specific questions raised in the consultation document.

We look forward to commenting on the new guidance to be issued for micro and small entities following this consultation.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Tina Patel, Senior Technical Manager (+ 44 (0) 207 651 1674).

Yours faithfully



Moore Stephens LLP

Appendix 1

Response to Consultation Document – Accounting standards for small entities – Implementation of the EU Accounting Directive

Questions 1 *Do you agree with the proposal to develop a new accounting standard, the Financial Reporting Standard for Micro-entities (FRSME), for entities taking advantage of the micro-entities regime (see paragraph 2.4)? If not, why not?*

We agree with the proposal to develop a new accounting standard for micro-entities, possibly FRS 105, as some sections within FRS 102 are likely to be irrelevant to micro-entities. A separate standard would make it easier for users to identify guidance specific to them rather than having to trawl through guidance that is not relevant. Micro-entities would further benefit from a separate standard given their minimalistic disclosure requirements.

Question 2 *Do you agree with the proposed recognition and measurement simplifications that are being considered for the FRSME (see paragraph 2.6(b))? If not, why not? Are there any further areas where you consider simplifications could be proposed for micro-entities?*

We do not support the simplified recognition and measurement criteria. We believe that recognition and measurement should not be dictated by the size of a company; for instance adding a few noughts to the end of a company's value should not result in a different recognition and measurement requirement.

Adopting a consistent recognition and measurement method to FRS 102 would reduce the impact of transitioning to FRS 102 when a company outgrows the micro-entity thresholds. This approach would also reduce staff training and software costs as consistent measurement and recognition would be applied based on FRS 102.

Question 3 *The accounting standard that is applicable to small entities (not just small companies) (ie currently the FRSSE) is being revised following changes to company law. Company law, which will limit the disclosures that can be made mandatory, may not apply to entities that are not companies. Do you agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria, not just companies? This will have the effect of reducing the number of mandatory disclosures for all small entities, not just small companies (see paragraph 3.11). If not, why not?*

Yes, we agree that the accounting standard for small entities should continue to apply to all small entities that meet the relevant criteria and not just companies.

Question 4 *Do you agree that the FRSSE should be withdrawn and small entities should be brought within the scope of FRS 102, so that they apply recognition and measurement requirements that are consistent with larger entities, but with fewer mandatory disclosures (see paragraph 3.15)? If not, are there any areas where you consider there should be recognition and measurement differences for small entities and why?*

We agree that the FRSSE should be withdrawn and small entities brought within the scope of FRS 102 for consistent recognition and measurement requirements. However, this does add additional complexity for those small entities that enter into derivative transactions (for example, forward foreign currency contracts and interest rate swaps), which would be recognised and measured at fair value. This could be seen as onerous, but given the likelihood of the company size threshold being increased and hence more companies being classified as small it is only fitting that companies should account for such transactions if entered into.

To alleviate concerns of how to recognise and measure derivatives, the FRC should consider providing educational material (in addition to the current material) to assist prepares who for the first time are required to fair value and recognise derivatives in their primary statements.

We would support the FRC if in addition to the mandatory disclosures likely to be required by legislation, an overarching disclosure requirement is provided. The requirement should result in additional disclosures being made by directors' to ensure the financial statements give a true and fair view, as there may be circumstances in which the proposed 13 mandatory disclosures may not satisfy the true and fair requirement.

Question 5 *FRED 50 Draft FRC Abstract 1 – Residential Management Companies' Financial Statements was issued in August 2013. After considering the comments received, the FRC publicised its intention to roll this project into the work required to implement the new EU Accounting Directive. Do you agree, in principle, with adding a new subsection to Section 34 Specialised Activities of FRS 102 to address the principles of accounting by residential management companies (RMCs) (see paragraph 3.27)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?*

We do not agree with adding an additional subsection within section 34 for RMCs. We believe this is an area that should be addressed by the industry through the issue of a SORP rather than the FRC adding additional requirements within FRS 102. Furthermore, we believe that by adding this guidance within section 34, this could result in other industry sectors requesting specific guidance making section 34 unwieldy and difficult to apply.

Question 6 *FRS 102 does not currently include all of the disclosures specified in company law. Other than in relation to the new small companies regime within FRS 102, it is not proposed that this will change. Do you agree that FRS 102 should not include all the disclosure requirements for medium and large companies from company law (see paragraph 4.6)? If not, why not?*

We believe it would be useful to preparers if all the disclosure requirements from company law are included within FRS 102. If this option was taken on by the FRC, consideration would also need to be given to including the requirements for LLP's, charities and retirement benefit plans as such entities fall within the scope of FRS 102. This option would only be useful if the standard was updated on a regular basis, i.e. each time the law changed, however this would make the standard more difficult to navigate and increase the risk of updates not being applied at the appropriate time.

For the above mentioned reasons, although nice to have, for practical reasons company law requirements should not be included within FRS 102. Instead the standard should include an explicit statement within section 1 stating that company law needs to be complied with, in addition to FRS 102 requirements unless a company's statutory framework does not permit the accounting requirement (similar wording to FRS 102 paragraph 9.1).

Question 7 *Do you agree that, if UK and Irish company law is sufficiently flexible, FRS 101 should be amended to permit the application of the presentation requirements of IAS 1 Presentation of Financial Statements, rather than the formats of the profit and loss account and balance sheet that are otherwise specified in company law (see paragraph 5.4)? Do you agree that this will increase efficiency of financial reporting within groups? If not, why not? Do you foresee any downsides to this approach?*

We agree that if the law is sufficiently flexible, FRS 101 should be amended to permit the application of the presentation requirements in IAS 1 as this will assist in the efficiency of group reporting in that one format could be used. However, it could lead to a lack of comparability due to the degree of flexibility permitted by IAS 1. This could be managed by the FRC by requiring certain key amounts to be disclosed through specific disclosure requirements.