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17 October 2014

For the attention of Jenny Carter
**Financial Reporting Council**
8th Floor, 125 London Wall
London
EC2Y 5AS

Our ref: mjs/tp/frc

Dear Sirs

**Consultation – Accounting Standards for Small Entities**

We are pleased to respond to your request for comment on your proposals for the accounting standards that will apply to small and micro entities following the implementation in the UK of the EU Accounting Directive. We have responded to the specific questions posed in the consultation paper in the attached appendix, but we also have some general observations.

We are entirely in agreement with the FRC that the decision by the EU to mandate specific limited notes to be included in small company financial statements, which cannot be 'gold-plated' by member states, will be challenging. In many situations the accounts of a small company will not show a true and fair view without additional notes being included in the financial statements and it is easy to see the potential for disputes between companies and their advisers as to what additional notes are required for the accounts to give a true and fair view.

We also believe that the proposed name for the micro-entity accounting standard needs to be amended as it is potentially confusing. The acronym 'FRSME' was the proposed acronym for the draft 'Financial Reporting Standard for Small and Medium-Sized Entities' which developed into what is now FRS 102, and the use of 'FRSME' in the context of micro-entities could therefore be misinterpreted. Since the only entities currently permitted to use the micros regime are companies, perhaps 'Financial Reporting Standard for Micro Companies' would suffice.

We hope that our comments are useful to you. If you have any questions, then please contact either Sir Michael Snyder or Tessa Park.

Yours faithfully

Kingston Smith LLP

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**Appendix 1: Responses to consultation questions**

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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?**

Yes, we agree that this makes sense because of the vastly reduced disclosure requirements and differences in accounting requirements for micro-entities compared with other companies. In our opinion this will be much clearer and more efficient than attempting to address micro-entities requirements within FRS 102. However as noted in our introductory comments we think that a different name is required.

2. **Do you agree with the proposed recognition and measurement simplifications that are being considered for the FRSME? If not, why not, are there any further areas where you consider simplifications could be proposed for micro-entities?**

Yes, we agree that the proposed simplifications, for instance accounting for financial instruments at cost, and removing the requirement to account for deferred taxation or share-based payments are appropriate. Whilst relatively few micro-entities are likely to have derivatives we believe the proposed clarification that a liability should be recognised when the derivative becomes onerous is helpful.

3. **The accounting standard that is applicable to small entities is being revised following changes to company law, which will limit the disclosures that can be made mandatory. However it may not apply to entities which 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.**

Yes, we agree that this makes sense as otherwise a disparity and lack of comparability would be created between entities that are companies and those that are not. Whilst we do not agree with the minimalist approach to disclosures for small companies, as it introduces too much uncertainty as to what additional notes are required to give a true and fair view, we do not believe that a two tier system with companies required to apply the minimalist approach and other small entities not permitted to, would work in practice.

Of course guidance for specific types of entities, such as charities or limited liability partnerships, could continue to be given in SORPs.

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 disclosure requirements?**

Yes, we agree with this approach as this will ensure consistency of financial reporting 'across the board' at least in terms of recognition and measurement. We hope that small entities will look to the disclosure requirements for larger entities when deciding what additional disclosures are required to give a true and fair view, and inclusion of small entities within the scope of FRS 102, where the disclosure requirements for larger entities are set out, should help facilitate this.

**5. Do you agree in principle with adding a new subsection to section 34 of FRS 102 (Specialised Activities) to address the principles of accounting by residential management companies?**

Yes, this seems to be a sensible approach.

**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? If not why not?**

Yes, we agree that there is no need for FRS 102 to include these requirements. To do so would make FRS 102 significantly longer and therefore potentially less user friendly than it is at present.

**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? Do you agree that this will increase efficiency of financial reporting within groups? Do you foresee any downsides?**

Yes, we agree that FRS 101 should be amended to permit the use of IFRS formats and do not see any particular downsides to this. It would potentially increase efficiency within groups and would also remove the difficulties inherent in applying the requirements for 'Companies Act accounts' to accounts prepared under FRS 101 which is essentially a modified form of IFRS.