



April 2014

Amendments to:

- the Financial Reporting Standard for Smaller Entities (effective April 2008); and
- the Financial Reporting Standard for Smaller Entities (effective January 2015)

Micro-entities

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Micro-entities

Amendments to the *Financial Reporting Standard for Smaller Entities (effective April 2008)* and the *Financial Reporting Standard for Smaller Entities (effective January 2015)* are issued by the Financial Reporting Council in respect of their application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of their application in the Republic of Ireland.

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Summary

- (i) In November 2013 *The Small Companies (Micro-Entities' Accounts) Regulations 2013* (SI 2013/3008) (the Micro-Entities' Accounts Regulations) were made to implement the provisions of the EU Directive on the annual accounts of certain types of companies as regards micro-entities¹ in UK law. The Micro-Entities' Accounts Regulations, and these corresponding amendments to the FRSSE, only apply to eligible companies incorporated under the Companies Act 2006 and may not be applied by any other entity applying the FRSSE.
- (ii) The Micro-Entities' Accounts Regulations are effective in respect of financial years ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013.
- (iii) The Micro-Entities' Accounts Regulations permit micro-entities to take certain exemptions relating to the preparation of their financial statements, meaning that without these amendments to the *Financial Reporting Standard for Smaller Entities (effective April 2008)* and the *Financial Reporting Standard for Smaller Entities (effective January 2015)*² (FRSSE) a micro-entity would not be able to comply with the FRSSE whilst taking advantage of the available exemptions. However, this does not restrict a micro-entity's ability to take advantage of the new legal exemptions from their effective date.
- (iv) Therefore the FRC has amended the FRSSE to allow those micro-entities taking advantage of the exemptions available in law to continue to prepare financial statements in compliance with the FRSSE. References to applying the micro-entities regime are to the financial statements of a micro-entity prepared in accordance with the Micro-Entities' Accounts Regulations.
- (v) Consistently with the Micro-Entities' Accounts Regulations these amendments to the FRSSE relate mainly to the presentation and disclosure in the financial statements of micro-entities. However, in addition the Micro-Entities' Accounts Regulations simplify the measurement bases available for fixed assets and certain current assets, with the effect that micro-entities applying the micro-entities regime may no longer revalue any fixed assets, including investment property or measure any current asset investments at current cost; as a result any previous revaluations would need to be reversed. Other than in relation to these simplifications in the measurement options available, the amendments do not affect the recognition or measurement of amounts included in the financial statements of micro-entities.
- (vi) To take advantage of the legal exemptions a micro-entity must meet certain qualifying conditions based on size, and must not be excluded from being treated as a micro-entity. Companies excluded from being treated as micro-entities include those excluded from the small companies regime, charities, those voluntarily preparing group accounts and those included in group accounts.
- (vii) When the remainder of the new EU Accounting Directive is implemented in the UK and the Republic of Ireland it will make significant changes to the small companies regime, although further changes to the micro-entities regime are not expected. In response the FRC is reviewing the FRSSE, and expects to issue revised accounting requirements for small entities, which will be effective from the same date as the legal changes. As part of this, the FRC is also considering how to present the requirements for micro-entities in the most user-friendly way. Therefore these amendments represent an interim solution.

¹ The Micro-Exemption forms part of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013.

² The *Financial Reporting Standard for Smaller Entities (effective January 2015)* was created by FRS 100 *Application of Financial Reporting Requirements* and comprises the *Financial Reporting Standard for Smaller Entities (effective April 2008)* and the amendments to it that are set out in FRS 100.

Amendments to:

- the Financial Reporting Standard for Smaller Entities (effective April 2008); and
- the Financial Reporting Standard for Smaller Entities (effective January 2015)

Micro-entities

- 1 The following paragraphs set out the amendments to the *Financial Reporting Standard for Smaller Entities (effective April 2008)* and the *Financial Reporting Standard for Smaller Entities (effective January 2015)* (deleted text is struck through, inserted text is underlined).
- 2 Paragraph 1.2 is inserted as follows:

“A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the Act:

- (a) shall disregard all presentation and disclosure requirements of the FRSSE (including those relating to the formats for the balance sheet and profit and loss account), except those set out in paragraphs 2.40 to 2.42, which are only applicable to **micro-entities**. However, where a **micro-entity** chooses to provide AN ITEM OF INFORMATION ADDITIONAL TO THE MICRO-ENTITY MINIMUM ACCOUNTING ITEMS, IT SHALL HAVE REGARD TO the requirements of the FRSSE RELATING TO THAT ITEM;
- (b) shall not choose to adopt an accounting policy of revaluation in respect of **tangible fixed assets**, which would otherwise be permitted by paragraph 6.23;
- (c) shall not choose to measure fixed asset investments at a market value, which would otherwise be permitted by paragraph 6.30;
- (d) shall account for any **investment properties** in accordance with paragraphs 6.19 to 6.22 rather than paragraphs 6.50 to 6.53;
- (e) shall not choose to measure current asset investments at current cost in accordance with paragraph 8.13.

If this results in a change in **accounting policy**, for example because fixed assets that were previously revalued are now accounted for at cost less **depreciation** and impairment, that change shall be accounted for in accordance with paragraph 2.10 by restating the amounts for the current and corresponding periods on the basis of the new policy.”

- 3 Paragraph 2.2A is inserted as follows:

“For a **micro-entity** preparing its financial statements in accordance with section 393(1A) of the Act that COMPRISE ONLY MICRO-ENTITY MINIMUM ACCOUNTING ITEMS:

- (a) THE MICRO-ENTITY MINIMUM ACCOUNTING ITEMS ARE PRESUMED TO GIVE A TRUE AND FAIR VIEW; and
- (b) paragraphs 2.3 to 2.5 and 2.18 do not apply.”

4 The sub-heading and paragraphs 2.40 to 2.42 are inserted as follows:

“Financial statements of a micro-entity

2.40 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare a balance sheet in which only those items listed in the following formats must be shown, where applicable:

BALANCE SHEET FORMAT 1

A CALLED UP SHARE CAPITAL NOT PAID

B FIXED ASSETS

C CURRENT ASSETS

D PREPAYMENTS AND ACCRUED INCOME

E CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

F NET CURRENT ASSETS (LIABILITIES)

G TOTAL ASSETS LESS CURRENT LIABILITIES

H CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

I PROVISIONS FOR LIABILITIES

J ACCRUALS AND DEFERRED INCOME

K CAPITAL AND RESERVES

BALANCE SHEET FORMAT 2

ASSETS

A CALLED UP SHARE CAPITAL NOT PAID

B FIXED ASSETS

C CURRENT ASSETS

D PREPAYMENTS AND ACCRUED INCOME

LIABILITIES

A CAPITAL AND RESERVES

B PROVISIONS FOR LIABILITIES

C CREDITORS*

D ACCRUALS AND DEFERRED INCOME

[Footnote]

“* AGGREGATE AMOUNTS FALLING DUE WITHIN ONE YEAR AND AFTER ONE YEAR MUST BE SHOWN SEPARATELY.”

THE BALANCE SHEET MUST CONTAIN, IN A PROMINENT POSITION ABOVE THE SIGNATURE, A STATEMENT THAT THE ACCOUNTS ARE PREPARED IN ACCORDANCE WITH THE MICRO-ENTITY PROVISIONS in Part 15 of the Companies Act 2006.

2.41 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare a profit and loss account in which only the following items must be shown, where applicable:

A TURNOVER

B OTHER INCOME

C COST OF RAW MATERIALS AND CONSUMABLES

D STAFF COSTS

E DEPRECIATION AND OTHER AMOUNTS WRITTEN OFF ASSETS

F OTHER CHARGES

G TAX

H PROFIT OR LOSS

2.42 A **micro-entity** preparing its financial statements in accordance with section 393(1A) of the **Act** shall prepare notes to the financial statements, to be disclosed at the foot of the balance sheet, providing disclosure of:

(a) guarantees and other financial commitments, as follows:

(i) PARTICULARS MUST BE GIVEN OF ANY CHARGE ON THE ASSETS OF THE COMPANY TO SECURE THE LIABILITIES OF ANY OTHER PERSON, INCLUDING, WHERE PRACTICABLE, THE AMOUNT SECURED.

(ii) THE FOLLOWING INFORMATION MUST BE GIVEN WITH RESPECT TO ANY OTHER CONTINGENT LIABILITY NOT PROVIDED FOR:

(A) THE AMOUNT OR ESTIMATED AMOUNT OF THAT LIABILITY;

(B) ITS LEGAL NATURE; AND

(C) WHETHER ANY VALUABLE SECURITY HAS BEEN PROVIDED BY THE COMPANY IN CONNECTION WITH THAT LIABILITY AND IF SO, WHAT.

(iii) THERE MUST BE STATED, WHERE PRACTICABLE, THE AGGREGATE AMOUNT OR ESTIMATED AMOUNT OF CONTRACTS FOR CAPITAL EXPENDITURE, SO FAR AS NOT PROVIDED FOR.

(iv) PARTICULARS MUST BE GIVEN OF:

(A) ANY PENSIONS COMMITMENTS INCLUDED UNDER ANY PROVISION SHOWN IN THE COMPANY'S BALANCE SHEET; AND

(B) ANY SUCH COMMITMENTS FOR WHICH NO PROVISION HAS BEEN MADE.

AND WHERE ANY SUCH COMMITMENT RELATES WHOLLY OR PARTLY TO PENSIONS PAYABLE TO PAST DIRECTORS OF THE COMPANY SEPARATE PARTICULARS MUST BE GIVEN OF THAT COMMITMENT AS FAR AS IT RELATES TO SUCH PENSIONS.

(v) PARTICULARS MUST ALSO BE GIVEN OF ANY OTHER FINANCIAL COMMITMENTS THAT:

(A) HAVE NOT BEEN PROVIDED FOR; AND

(B) ARE RELEVANT TO ASSESSING THE COMPANY'S STATE OF AFFAIRS.

(vi) COMMITMENTS WITHIN ANY OF SUB-PARAGRAPHS (i) to (v) WHICH ARE UNDERTAKEN ON BEHALF OF OR FOR THE BENEFIT OF (A) ANY PARENT UNDERTAKING OR FELLOW SUBSIDIARY UNDERTAKING, OR (B) ANY SUBSIDIARY UNDERTAKING OF THE COMPANY, MUST BE STATED SEPARATELY FROM THE OTHER COMMITMENTS. COMMITMENTS WITHIN PARAGRAPH (A) MUST ALSO BE STATED SEPARATELY FROM THOSE WITHIN PARAGRAPH (B).

(b) directors' benefits: advances, credit and guarantees as follows:

- (i) DETAILS OF:
 - (A) ADVANCES AND CREDITS GRANTED BY THE COMPANY TO ITS DIRECTORS; AND
 - (B) GUARANTEES OF ANY KIND ENTERED INTO BY THE COMPANY ON BEHALF OF ITS DIRECTORS.
- (ii) THE DETAILS REQUIRED OF AN ADVANCE OR CREDIT ARE:
 - (A) ITS AMOUNT;
 - (B) AN INDICATION OF THE INTEREST RATE;
 - (C) ITS MAIN CONDITIONS; AND
 - (D) ANY AMOUNTS REPAID.
- (iii) THE DETAILS REQUIRED OF A GUARANTEE ARE:
 - (A) ITS MAIN TERMS;
 - (B) THE AMOUNT OF THE MAXIMUM LIABILITY THAT MAY BE INCURRED BY THE COMPANY; AND
 - (C) ANY AMOUNT PAID AND ANY LIABILITY INCURRED BY THE COMPANY FOR THE PURPOSE OF FULFILLING THE GUARANTEE (INCLUDING ANY LOSS INCURRED BY REASON OF ENFORCEMENT OF THE GUARANTEE).
- (iv) THERE MUST ALSO BE STATED THE TOTALS:
 - (A) OF AMOUNTS STATED UNDER paragraph (ii)(A);
 - (B) OF AMOUNTS STATED UNDER paragraph (ii)(D);
 - (C) OF AMOUNTS STATED UNDER paragraph (iii)(B); AND
 - (D) OF AMOUNTS STATED UNDER paragraph (iii)(C).
- (v) REFERENCES IN THIS paragraph TO THE DIRECTORS OF A COMPANY ARE TO THE PERSONS WHO WERE A DIRECTOR AT ANY TIME IN THE FINANCIAL YEAR TO WHICH THE financial statements RELATE.
- (vi) THE REQUIREMENTS OF THIS paragraph APPLY IN RELATION TO EVERY ADVANCE, CREDIT OR GUARANTEE SUBSISTING AT ANY TIME IN THE FINANCIAL YEAR TO WHICH THE financial statements RELATE:
 - (A) WHENEVER IT WAS ENTERED INTO; AND
 - (B) WHETHER OR NOT THE PERSON CONCERNED WAS A DIRECTOR OF THE COMPANY IN QUESTION AT THE TIME IT WAS ENTERED INTO.”

5 Paragraph 6.18 is amended as follows:

“Except as set out in paragraph 1.2, paragraphs Paragraphs ...”

6 Paragraph 19.1 is amended as follows:

“Except as set out in paragraph 19.1A, the The ...”

7 Paragraph 19.1A is inserted as follows:

In the FRSSE (effective April 2008): “The accounting practices for **micro-entities** set out in paragraphs 1.2, 2.2A and 2.40 to 2.42 of this Financial Reporting Standard for Smaller Entities (effective April 2008) shall be regarded as standard in respect of the financial statements of **micro-entities** relating to accounting periods ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013. Earlier application is not permitted.”

8 Amendments to the FRSSE (April 2014)

In the FRSSE (effective January 2015): “The accounting practices for **micro-entities** set out in paragraphs 1.2, 2.2A and 2.40 to 2.42 of this Financial Reporting Standard for Smaller Entities (effective January 2015) shall be regarded as standard in respect of the financial statements of **micro-entities** relating to accounting periods ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013. Earlier application is not permitted.”

8 In Part C *Definitions* the following definitions are inserted as follows:

“Act:-

The Companies Act 2006”

“Micro-entity:-

As defined in sections 384A and 384B of the **Act**, which are summarised in Appendix I *Note on legal requirements for companies.*”

“Micro-entity minimum accounting items:-

The items of information required by the **Act** or regulations to be contained in the individual accounts of a company which qualifies as a **micro-entity**. These are set out in paragraphs 2.40 to 2.42.”

9 In Appendix I *Note on legal requirements for companies* the sub-heading and paragraphs 13 to 18 are inserted as follows:

“**Micro-entities**

13 The *Small Companies (Micro-Entities’ Accounts) Regulations 2013* (the *Micro-Entities’ Accounts Regulations*) were made in November 2013 and apply to the financial statements of micro-entities for accounting periods ending on or after 30 September 2013 for companies filing their accounts on or after 1 December 2013.

14 The definition of a micro-entity is contained in sections 384A and 384B of the Companies Act 2006. The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

<u>Turnover</u>	<u>£632,000</u>
<u>Balance sheet total</u>	<u>£316,000</u>
<u>Number of employees</u>	<u>10</u>

For any company, other than a newly incorporated company, to qualify as a micro-entity, the qualifying conditions must be met for two consecutive years. A company will cease to qualify as a micro-entity if it fails to meet the qualifying conditions for two consecutive years. However, if a company which qualified as a micro-entity in one period no longer meets the criteria for a micro-entity in the next period, the company may continue to claim the exemptions available in the next period. If that company then reverts back to being a micro-entity by meeting the criteria, the exemptions will continue uninterrupted.

15 Certain companies are excluded by section 384B from being treated as micro-entities, including those excluded from the small companies regime for reasons of public interest (as set out in section 384), certain financial institutions, charities, those voluntarily preparing group accounts and those included in group accounts. The **Act** should be referred to for a full list of excluded companies.

16 Entities that are not companies, such as limited liability partnerships (LLPs), cannot meet the definition of a micro-entity.

- 17 Micro-entities preparing financial statements comprising only the micro-entity minimum accounting items shall apply the specific paragraphs of the FRSSE applicable to micro-entities. This will allow micro-entities to take advantage of the reduced presentation and disclosure requirements whilst complying with the generally accepted recognition and measurement requirements of the FRSSE, except that the Micro-Entities' Accounts Regulations simplify the measurement bases available for fixed assets and certain current assets. The effect of this is that micro-entities may not revalue any fixed assets, including investment property or measure any current asset investments at current cost.
- 18 Similar legislation is not currently applicable in the Republic of Ireland.”
- 10 In Appendix IV *The Development of the FRSSE* paragraph 37D is inserted as follows:
- “In April 2014 the FRC issued *Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) and the Financial Reporting Standard for Smaller Entities (effective January 2015) – Micro-entities*. The amendments made to the FRSSE reflect the impact of the Small Companies (Micro-Entities' Accounts) Regulations 2013. As a result micro-entities will be able to prepare micro-entity accounts in compliance with the FRSSE.”

Approval by the FRC

Amendments to the *Financial Reporting Standard for Smaller Entities (effective April 2008)* and the *Financial Reporting Standard for Smaller Entities (effective January 2015)* were approved by the Financial Reporting Council on 9 April 2014, following its consideration of the Accounting Council's Advice.

The Accounting Council's Advice to the FRC to issue Amendments to the FRSSE (effective April 2008) and the FRSSE (effective January 2015) – Micro-entities

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 *Amendments to: the Financial Reporting Standard for Smaller Entities (effective April 2008); and the Financial Reporting Standard for Smaller Entities (effective January 2015) – Micro-entities*.
- 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:
 - it is apparent that a significant group of stakeholders has not been adequately consulted;
 - the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;
 - insufficient consideration has been given to the timing or cost of implementation; or
 - 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 *Amendments to: the Financial Reporting Standard for Smaller Entities (effective April 2008); and the Financial Reporting Standard for Smaller Entities (effective January 2015) – Micro-entities* so that micro-entities will be able to prepare micro-entity accounts in compliance with the FRSSE.

Background

- 6 The *Small Companies (Micro-Entities' Accounts) Regulations 2013 (SI 2013/3008)* (the Micro-Entities' Accounts Regulations) were made in November 2013 and apply to the financial statements of micro-entities for accounting periods ending on or after 30 September 2013, for companies filing their accounts on or after 1 December 2013. Micro-entities are a sub-set of small companies. The Micro-Entities' Accounts Regulations only apply to eligible companies incorporated under the Companies Act 2006. As a result these amendments to the FRSSE may only be applied by those eligible companies incorporated under the Companies Act 2006 and may not be applied by any other entity applying the FRSSE.
- 7 Unless an amendment is made to the FRSSE to reflect the new legal provisions a micro-entity taking advantage of those legal provisions would not be able to comply with the remaining, relevant provisions of the FRSSE. The FRC consulted on proposals to amend

the FRSSE accordingly in FRED 52 *Draft amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities*, which was issued in December 2013. Respondents to FRED 52 broadly agreed with the proposals and therefore the Accounting Council advises that amendments are made to the FRSSE to reflect the new micro-entities regime.

- 8 The Accounting Council advises that micro-entities preparing financial statements comprising only the micro-entity minimum accounting items shall apply the specific paragraphs of the FRSSE applicable to micro-entities. This will allow micro-entities to take advantage of the reduced presentation and disclosure requirements whilst complying with the generally accepted recognition and measurement requirements of the FRSSE (except that the micro-entities regime does not permit the revaluation of tangible fixed assets or the use of current cost for current asset investments).
- 9 The Accounting Council notes that this amendment only relates to UK companies that are micro-entities. If similar legislation is introduced in the Republic of Ireland (derived from Directive 2012/6/EU of the European Parliament and of the Council) the FRSSE will be further updated.

User-friendliness of the amendments

- 10 Some respondents to FRED 52 noted that the FRSSE is currently a one-stop-shop for financial reporting by small entities and that, although this will continue to be the case for micro-entities (and other small entities) following the inclusion of these amendments in the FRSSE, it may no longer be as user-friendly for a micro-entity.
- 11 The Accounting Council understands these comments, and the following amendments have been made:
 - the presentation of the disclosure requirements for micro-entities has been changed so that they no longer cross-refer to other requirements of the FRSSE but the disclosure requirements are set out in full;
 - the summarised definition of a micro-entity to be added to Appendix I *Note on legal requirements for companies* of the FRSSE has been expanded.
- 12 However, when the new EU Accounting Directive³ is brought into UK and Irish law it will make significant changes to the small companies regime, although further changes to the micro-entities regime are not expected. In response the FRC is reviewing the FRSSE, and expects to issue revised accounting requirements for small entities to be effective from the same date as the new legal framework will be effective. As part of this, the Accounting Council will be advising the FRC on how to present the requirements for micro-entities in the most user-friendly way, and expects to consult on a separate accounting standard for micro-entities in due course. Therefore these amendments represent an interim solution.

Transitional provisions

- 13 Seven of the nine respondents to FRED 52 requested that the FRC considers whether transitional provisions should be available for entities applying the micro-entities regime that had previously revalued fixed assets (including investment property), for example by allowing a previous revalued amount to be carried forward as 'deemed cost'. The Accounting Council has considered this, but the micro-entities regime only permits micro-entities to apply the historical cost accounting rules (as set out in *The Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008 (SI 2008/409)*), which require fixed assets to be included at purchase price or production cost. Therefore, it would be inconsistent with the new legal framework for micro-entities to provide such

³ Directive 2013/34/EU of the European Parliament and of the Council.

transitional provisions. The Accounting Council notes that the micro-entities regime is optional and if a micro-entity wished to retain revalued amounts in its financial statements it could continue to apply the small company regime, rather than moving to the micro-entities regime.

Approval of this advice

- 14 This advice to the FRC was approved by the nine members of the Accounting Council on 13 March 2014.



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