



May 2016

Amendments to FRS 105

The Financial Reporting Standard applicable to the Micro-entities Regime

Limited Liability Partnerships and
Qualifying Partnerships

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Amendments to FRS 105
*The Financial Reporting Standard
applicable to the Micro-entities
Regime*

Limited Liability Partnerships and
Qualifying Partnerships

Amendments to FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime – Limited Liability Partnerships and Qualifying Partnerships amends an accounting standard. It is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

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Summary

- (i) With effect from 1 January 2015 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 five 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*;
 - (d) FRS 103 *Insurance Contracts*; and
 - (e) FRS 104 *Interim Financial Reporting*.

The FRC has also issued FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* to support the implementation of the new micro-entities regime. It is effective from 1 January 2016 with early application permitted.

These limited amendments to FRS 105 extend its scope to include eligible limited liability partnerships (LLPs) and qualifying partnerships, following a change in legislation. For LLPs and qualifying partnerships early application is permitted only for accounting periods beginning on or after 1 January 2015.

- (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.

Amendments to FRS 105 – Limited Liability Partnerships and Qualifying Partnerships

- (iv) In November 2013 the Government introduced an optional new reporting framework for companies that meet the qualifying criteria of a micro-entity. In response the FRC developed FRS 105 which may be used by eligible companies.
- (v) These amendments to FRS 105 extend its scope to include eligible LLPs and qualifying partnerships following a change in legislation. The use of the micro-entities regime remains optional.

- (vi) These amendments are applicable to accounting periods beginning on or after 1 January 2016. Early application is permitted for accounting periods beginning on or after 1 January 2015.

Amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

Amendments to Section 1 Scope

- 1 The following paragraph sets out the amendments to Section 1 *Scope* (inserted text is underlined).
- 2 Paragraph 1.5 is inserted as follows:
 - 1.5 In May 2016 amendments were made to this FRS to extend its scope to include **limited liability partnerships (LLPs)** and **qualifying partnerships** following a change in legislation. An LLP or a qualifying partnership which qualifies as a micro-entity and is applying the micro-entities regime shall apply this FRS for accounting periods beginning on or after 1 January 2016. Early application by a micro-entity that is an LLP or a qualifying partnership is:
 - (a) permitted for accounting periods beginning on or after 1 January 2015 provided that *The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016 (SI 2016/575)* are applied from the same date; and
 - (b) required if the LLP or qualifying partnership applies *The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016 (SI 2016/575)* to a reporting period beginning before 1 January 2016.

Amendments to Section 3 *Financial Statement Presentation*

- 3 The following paragraph sets out the amendments to Section 3 *Financial Statement Presentation* (inserted text is underlined).
- 4 A new footnote (to be sequentially numbered) is inserted after the word 'Act' in paragraph 3.14 (subsequent footnotes are renumbered sequentially) as follows:

^{footnote} Or, when relevant, Regulation 12 of the *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911).

Amendments to Section 4 Statement of Financial Position

- 5 The following paragraph sets out the amendments to Section 4 *Statement of Financial Position* (deleted text is struck through, inserted text is underlined).
- 6 Paragraph 4.3 is amended and a new footnote (to be sequentially numbered) is inserted (subsequent footnotes are renumbered sequentially) as follows:
- 4.3 A micro-entity shall present a statement of financial position in accordance with one of the formats set out in Section C of Part 1 of Schedule 1 to the **Small Companies Regulations** or Section C of Part 1 of Schedule 1 to the **Small LLP Regulations**^{footnote}, as follows~~illustrated below~~:

Format 1	CU	CU
Called up share capital not paid		X
Fixed assets		X
Current assets	X	
Prepayments and accrued income	X	
Creditors: amounts falling due within one year	<u>(X)</u>	
Net current assets / (liabilities)		<u>X/(X)</u>
Total assets less current liabilities		X
Creditors: amounts falling due after more than one year		(X)
Provisions for liabilities		(X)
Accruals and deferred income		<u>(X)</u>
		<u>X</u>
		<u>X</u>
Capital and reserves		<u>X</u>

Format 2	CU	CU
Assets		
Called up share capital not paid		X
Fixed assets		X
Current assets		X
Prepayments and accrued income		X
		<hr/>
		X
		<hr/>
Capital, Reserves and Liabilities		
Capital and reserves		X
Provisions for liabilities		X
Creditors		
Amounts falling due within one year	X	
Amounts falling due after one year	X	
	<hr/>	
		X
Accruals and deferred income		X
		<hr/>
		X
		<hr/>

^{footnote} LLPs shall describe the items as set out in the Small LLP Regulations. In particular, 'Called up share capital not paid' shall not be used and 'Loans and other debts due to members' and 'Members' other interests' shall be used instead of 'Capital and reserves'.

Amendments to Section 5 *Income Statement*

- 7 The following paragraph sets out the amendments to Section 5 *Income Statement* (deleted text is struck through, inserted text is underlined).
- 8 Paragraph 5.3 is amended and a new footnote (to be sequentially numbered) is inserted (subsequent footnotes are renumbered sequentially) as follows:
- 5.3 A micro-entity shall present its profit or loss for a period in an income statement in accordance with Section C of Part 1 of Schedule 1 to the **Small Companies Regulations** or Section C of Part 1 of Schedule 1 to the **Small LLP Regulations**, as follows~~illustrated below~~:

	CU
Turnover	X
Other income	X
Cost of raw materials and consumables	(X)
Staff costs	(X)
Depreciation and other amounts written off assets	(X)
Other charges	(X)
Tax	(X)
Profit or loss ^{footnote}	<u>X / (X)</u>

^{footnote} LLPs shall describe this item as 'Profit or loss for the financial year before members' remuneration and profit shares'.

Amendments to Section 6

Notes to the Financial Statements

9 The following paragraphs set out the amendments to Section 6 *Notes to the Financial Statements* (deleted text is struck through, inserted text is underlined).

10 Paragraph 6.3 is inserted as follows:

6.3 In accordance with Regulation 30 of the *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911), the notes to the financial statements of an **LLP** which qualifies as a micro-entity shall be presented at the foot of the statement of financial position and shall include financial commitments, guarantees and contingencies as required by paragraph 55 of Part 3 of Schedule 1 to the **Small LLPs Regulations** (see paragraphs 6A.2 and 6A.3 in the Appendix to this Section).

11 Paragraphs 6A.2 and 6A.3 are amended as follows:

6A.2 *The total amount of any financial commitments, guarantees and contingencies that are not included in the statement of financial position must be stated. (~~Schedule 1, paragraph 57(1) of Schedule 1 to the Small Companies Regulations or paragraph 55(1) of Schedule 1 to the Small LLPs Regulations~~)*

The total amount of any commitments concerning pensions must be separately disclosed. (~~Schedule 1, paragraph 57(3) of Schedule 1 to the Small Companies Regulations or paragraph 55(3) of Schedule 1 to the Small LLPs Regulations~~)

The total amount of any commitments which are undertaken on behalf of or for the benefit of:

(a) any parent, fellow subsidiary or any subsidiary of a micro-entity; or

(b) any undertaking in which a micro-entity has a participating interest,

must be separately stated and those within (a) must also be stated separately from those within (b). (~~Schedule 1, paragraph 57(4) of Schedule 1 to the Small Companies Regulations or paragraph 55(4) of Schedule 1 to the Small LLPs Regulations~~)

The following paragraphs ...

6A.3 *An indication of the nature and form of any valuable security given by the micro-entity in respect of commitments, guarantees and contingencies within paragraph 6A.2 must be given. (~~Schedule 1, paragraph 57(2) of Schedule 1 to the Small Companies Regulations or paragraph 55(2) of Schedule 1 to the Small LLPs Regulations~~)*

The following paragraphs ...

Amendments to Section 7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements*

- 12 The following paragraph sets out the amendment to Section 7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements* (inserted text is underlined).
- 13 A new footnote (to be sequentially numbered) is inserted after the word 'Act' in paragraph 7.3 (subsequent footnotes are renumbered sequentially) as follows:

^{footnote} Or, when relevant, Regulation 5A of the *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (SI 2008/1911)*.

Amendments to Section 22

Impairment of Assets

- 14 The following paragraph sets out the amendments to Section 22 *Impairment of Assets*.
- 15 Footnote 1 in paragraph 22.19 is deleted (subsequent footnotes are renumbered sequentially).

Amendments to Appendix I: Glossary

16 The following paragraphs set out the amendments to Appendix I: *Glossary* (deleted text is struck through, inserted text is underlined).

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

<u>limited liability partnership (LLP)</u>	<u>A limited liability partnership formed under the Limited Liability Partnerships Act 2000 or the Limited Liability Partnerships Act (Northern Ireland) 2002.</u>
<u>qualifying partnership</u>	<u>A partnership meeting the definition of a qualifying partnership as set out in the Partnerships (Accounts) Regulations 2008 (SI 2008/569).</u>
<u>Small LLP Regulations</u>	<u>The Small Limited Liability Partnership (Accounts) Regulations 2008 (SI 2008/1912)</u>

18 The following glossary terms and definitions are amended as follows:

micro-entity	<p>Is an entity that meets all of the following conditions:</p> <p>(a) it is a company established under company law;</p> <p>(b) it qualifies as a micro-entity in accordance with section 384A of the Act; and</p> <p>(c) it is not excluded from being treated as a micro-entity under section 384B of the Act.</p> <p>Micro-entities are a subset of small companies as defined in the Act.</p> <p><u>(a) A company meeting the definition of a micro-entity as set out in section 384A of the Act, and not prevented from applying the micro-entity provisions by section 384B of the Act;</u></p> <p><u>(b) an LLP which qualifies as a micro-entity and is not prevented from applying the micro-entity provisions in accordance with Regulation 5A of the <i>Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008</i> (SI 2008/1911); or</u></p> <p><u>(c) a qualifying partnership that would meet the definition of a micro-entity as set out in section 384A of the Act, and not be prevented from applying the micro-entity provisions by section 384B of the Act, if the partnership were a company.</u></p>
micro-entity provisions	<p>Means a<u>(a) Any provisions of Part 15, Part 16 or regulations made under Part 15 of the Act; or</u></p> <p><u>(b) any provisions of the Small LLP Regulations,</u></p> <p>relating specifically to the individual accounts of an entity which qualifies as a micro-entity.</p>
micro-entities regime	<p>The legal requirements and exemptions relating to the preparation of the financial statements of micro-entities as set out in the Act, the <u>and Small Companies Regulations and the Small LLP Regulations.</u></p>

Amendments to Appendix III: Note on legal requirements

19 The following paragraphs set out the amendments to Appendix III: *Note on legal requirements* (deleted text is struck through, inserted text is underlined).

20 Paragraph A3.1 is amended as follows:

A3.1 This appendix provides an overview of how the requirements of FRS 105 address UK company law requirements. It is therefore written from the perspective of a company to which *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) amended by *The Small Companies (Micro-Entities' Accounts) Regulations 2013* (SI 2013/3008) and *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) apply. The same provisions generally apply to limited liability partnerships (LLPs) and qualifying partnerships following amendments to legislation made in *The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016* (SI 2016/575) (see paragraph A3.6).

21 Paragraph A3.6 is amended as follows:

A3.6 *The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016* (SI 2016/575) were made in May 2016 and extend the micro-entities regime to LLPs and qualifying partnerships for accounting periods beginning on or after 1 January 2016 with early application permitted for accounting periods beginning on or after 1 January 2015. LLPs and qualifying partnerships are eligible to apply the micro-entities regime, provided they meet the relevant conditions, which mirror the requirements of sections 384A and 384B of the Act for companies. Entities that are not companies, such as limited liability partnerships (LLPs), or qualifying partnerships do not meet the definition of a micro-entity.

Approval by the FRC

Amendments to *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime – Limited Liability Partnerships and Qualifying Partnerships* was approved by the Board of the Financial Reporting Council for issue on 17 May 2016, following its consideration of the Corporate Reporting Council's Advice.

The Corporate Reporting Council's Advice to the FRC to issue Amendments to FRS 105 – Limited Liability Partnerships and Qualifying Partnerships

Introduction

- 1 This report provides an overview of the main issues that have been considered by the Corporate Reporting Council in advising the Financial Reporting Council (FRC) to issue *Amendments to FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime – Limited Liability Partnerships and Qualifying Partnerships*.
- 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 Corporate Reporting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 5 The Corporate Reporting Council is advising the FRC to issue *Amendments to FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime – Limited Liability Partnerships and Qualifying Partnerships*.
- 6 The amendments update FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* in line with changes in UK legislation which have extended the micro-entities regime to limited liability partnerships (LLPs) and qualifying partnerships.
- 7 The Accounting Council's Advice¹ to the FRC to issue FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* was set out in that standard. The Corporate Reporting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 105.

Background

- 8 When FRS 105 was issued, UK company law restricted the availability of the new micro-entities regime to eligible companies. FRS 105 reflected this legal restriction. In

¹ From 1 April 2016 the Accounting Council was renamed as the Corporate Reporting Council.

May 2016 Regulations were made which extended the micro-entities regime to LLPs and qualifying partnerships.

- 9 In accordance with the FRC's *Framework for developing Standards, Statements of Practice, Codes and Guidance*, these amendments have been assessed as not requiring a formal consultation. FRS 105 was developed to support the existing micro-entities regime for companies, which as a result of a change in legislation has been extended to LLPs and qualifying partnerships, and these amendments simply extend the scope of FRS 105 (with some consequential amendments) consistently with the change in legislation.

Amendments to FRS 105

- 10 In developing its advice to the FRC, the Corporate Reporting 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.
- 11 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.
- 12 The Corporate Reporting Council advises that, as the micro-entities regime is now available to LLPs and qualifying partnerships, FRS 105 should be updated to reflect the extent to which the micro-entities regime is available in law. In order to achieve this the definition of a micro-entity and other related glossary terms have been updated.
- 13 The presentation and disclosure requirements applicable to the financial statements of LLPs and qualifying partnerships that adopt the micro-entities regime are almost identical to those applicable to the financial statements of companies that are micro-entities. Where there are differences these have been reflected in the amendments to FRS 105.
- 14 The Corporate Reporting Council advises that the current recognition and measurement requirements of FRS 105 are also suitable for LLPs and qualifying partnerships applying the micro-entities regime and therefore no amendments have been made to the recognition and measurement requirements of FRS 105.

Effective date

- 15 The Corporate Reporting Council advises that in line with the effective date of the changes in legislation, the amendments to FRS 105 should be effective for accounting periods beginning on or after 1 January 2016 with early adoption permitted for accounting periods beginning on or after 1 January 2015.

Approval of this Advice

16 This advice to the FRC was approved by the Corporate Reporting Council on 14 April 2016.



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