



Financial Reporting Council

September 2015

FRS 100

Application of Financial Reporting Requirements

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**Application of Financial Reporting
Requirements**

FRS 100 *Application of Financial Reporting Requirements* is 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.

Contents

| | Page |
|---|------|
| Summary | 3 |
| Financial Reporting Standard 100 Application of Financial Reporting Requirements | 5 |
| Application Guidance | 11 |
| The interpretation of equivalence | |
| Approval by the FRC | 14 |
| The Accounting Council’s Advice to the FRC to issue FRS 100 | 15 |
| The Accounting Council’s Advice to the FRC to issue Amendments to FRS 100 | 21 |
| Appendices | |
| I Glossary | 24 |
| II Note on legal requirements | 27 |
| III Previous consultations | 32 |
| IV Republic of Ireland (RoI) legal references | 37 |

Summary

- (i) With effect from 1 January 2015 the Financial Reporting Council (FRC) revised financial reporting standards for the United Kingdom and Republic of Ireland. The revision 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.
- (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.
- (iv) The requirements in this Financial Reporting Standard (FRS) take into consideration the findings from all relevant consultations.
- (v) This FRS sets out the financial reporting requirements for UK and Republic of Ireland entities. Financial statements (whether consolidated financial statements or individual financial statements) that are within the scope of this FRS must be prepared in accordance with the following requirements:
- (a) If the financial statements are those of an entity that is eligible to apply FRS 105, 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 FRS 105, or of an entity that is eligible to apply FRS 105 but chooses not to do so, they must be prepared in accordance with FRS 102, EU-adopted IFRS or, if the financial statements are the individual financial statements of a qualifying entity, FRS 101¹.

¹ Under company law in the Republic of Ireland, certain entities are permitted to prepare 'Companies Act accounts' using a financial reporting framework based on accounting standards other than those issued by the FRC.

- (vi) FRS 101 sets out a reduced disclosure framework which addresses the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.
- (vii) FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying EU-adopted IFRS, FRS 101 or the FRSSE.
- (viii) FRS 105 sets out the financial reporting requirements for micro-entities, as defined by company law, choosing to apply the micro-entities regime.
- (ix) This edition of FRS 100 issued in September 2015 updates the edition of FRS 100 issued in November 2012 for the following:
 - (a) the withdrawal of FRS 27 *Life Assurance* (as set out in FRS 103 *Insurance Contracts* issued in March 2014);
 - (b) consequential amendments to FRS 102 included in FRS 104 *Interim Financial Reporting* issued in March 2015;
 - (c) *Amendments to FRS 100* issued in July 2015;
 - (d) an editorial amendment to paragraph A2.19 to include a reference to the Strategic Report; and
 - (e) some minor typographical or presentational corrections.

FRS 100

Application of Financial Reporting Requirements

Objective

- 1 The objective of this Financial Reporting Standard (FRS) is to set out the applicable financial reporting framework for entities preparing financial statements in accordance with legislation, regulations or accounting standards applicable in the United Kingdom and Republic of Ireland.

Scope

- 2 This FRS applies to financial statements that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period.

Abbreviations and definitions

- 3 The terms **Accounting Directive, Act, date of transition, EU-adopted IFRS, financial institution, FRS 100, FRS 101, FRS 102, FRS 105, IAS Regulation, IFRS, individual financial statements, public benefit entity, qualifying entity, small entity** and **SORP** are defined in the glossary included as Appendix I to this FRS.

Basis of preparation of financial statements

- 4 Financial statements (whether consolidated financial statements or individual financial statements) that are within the scope of this FRS, and that are not required by the IAS Regulation or other legislation or regulation to be prepared in accordance with EU-adopted IFRS, must be prepared in accordance with the following requirements:
 - (a) If the financial statements are those of an entity that is eligible to apply FRS 105², 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 FRS 105³, or of an entity that is eligible to apply FRS 105 but chooses not to do so, they must³ be prepared in accordance with FRS 102, EU-adopted IFRS⁴ or, if the financial statements are the individual financial statements of a qualifying entity, FRS 101.⁵

Application of statements of recommended practice (SORPs)

- 5 If an entity's financial statements are prepared in accordance with FRS 102 SORPs will apply in the circumstances set out in that FRS.
- 6 When a SORP applies, an entity, other than a small entity applying the small entities regime in FRS 102, shall state in its financial statements the title of the SORP and whether its financial statements have been prepared in accordance with the SORP's provisions

² The eligibility criteria for applying FRS 105 are set out in legislation and FRS 105. In establishing whether the eligibility criteria have been met turnover and balance sheet total shall be measured in accordance with FRS 105; the measurement of turnover and balance sheet total in accordance with FRS 101 or FRS 102 need not be considered.

³ Under company law in the Republic of Ireland, certain entities are permitted to prepare 'Companies Act accounts' using a financial reporting framework based on accounting standards other than those issued by the FRC.

⁴ Some entities are prohibited from applying EU-adopted IFRS, for example section 395(2) of the Act states that 'the individual accounts of a company that is a charity must be Companies Act individual accounts', and section 403(3) of the Act mirrors this for the group accounts of a parent company that is a charity.

⁵ Individual accounts that are prepared by a company in accordance with FRS 101, FRS 102 or FRS 105 are Companies Act individual accounts (section 395(1)(a) of the Act), whereas individual accounts that are prepared by a company in accordance with EU-adopted IFRS are IAS individual accounts (section 395(1)(b) of the Act).

that are currently in effect⁶. In the event of a departure from those provisions, the entity shall give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:

- (a) for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and
- (b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.

A small entity applying the small entities regime in FRS 102 is encouraged to provide these disclosures.

- 7 SORPs recommend particular accounting treatments and disclosures with the aim of narrowing areas of difference and variety between comparable entities. Compliance with a SORP that has been generally accepted by an industry or sector leads to enhanced comparability between the financial statements of entities in that industry or sector. Comparability is further enhanced if users are made aware of the extent to which an entity complies with a SORP, and the reasons for any departures. The effect of a departure from a SORP need not be quantified, except in those rare cases where such quantification is necessary for the entity's financial statements to give a true and fair view.
- 8 Entities whose financial statements do not fall within the scope of a SORP may, if the SORP is otherwise relevant to them, nevertheless choose to comply with the SORP's recommendations when preparing financial statements, provided that the SORP does not conflict with the requirements of the framework adopted. Where this is the case, entities are encouraged to disclose that fact.

Statement of compliance

- 9 Where an entity prepares its financial statements in accordance with FRS 101 or FRS 102, it shall include a statement of compliance in the notes to the financial statements in accordance with the requirements set out in the relevant standard unless it is a small entity applying the small entities regime in FRS 102, in which case it is encouraged to include a statement of compliance in the notes to the financial statements.

Date from which effective and transitional arrangements

- 10 An entity shall apply this FRS for accounting periods beginning on or after 1 January 2016. Early application of this FRS is permitted, providing an entity also applies the edition of FRS 101, FRS 102 and FRS 105 effective for accounting periods beginning on or after 1 January 2016 and is subject to the early application provisions set out in those standards. An entity choosing not to apply these amendments to accounting periods beginning before 1 January 2016 shall not adopt the associated amendments made to FRS 101, FRS 102 nor FRS 105 to accounting periods beginning before 1 January 2016. If an entity applies this FRS before 1 January 2016 it shall disclose that fact, unless the entity is a micro-entity or a small entity. A small entity is encouraged to provide this disclosure.

⁶ The provisions of a SORP will cease to have effect, for example, to the extent that they conflict with a more recent financial reporting standard.

- 11 On first-time application of this FRS, or when an entity changes the basis of preparation of its financial statements within the requirements of this FRS, it shall apply the transitional arrangements relevant to its circumstances as follows:
- (a) An entity transitioning to EU-adopted IFRS shall apply the transitional arrangements set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* as adopted by the EU.
 - (b) A qualifying entity transitioning to FRS 101 shall, unless it is applying EU-adopted IFRS prior to the date of transition (see paragraph 12), apply the requirements of paragraphs 6 to 33 of IFRS 1 as adopted by the EU including the relevant appendices except for the requirement of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition; references to IFRSs in IFRS 1 are interpreted to mean EU-adopted IFRS as amended in accordance with paragraph 5(b) of FRS 101.
 - (c) An entity transitioning to FRS 102 shall apply the transitional arrangements set out in that standard.
 - (d) An entity transitioning to FRS 105 shall apply the transitional arrangements set out in FRS 105.
- 12 A qualifying entity applying EU-adopted IFRS prior to the date of transition to FRS 101 will then be preparing Companies Act individual accounts in accordance with section 395(1)(a) of the Act and thus will no longer be preparing IAS individual accounts in accordance with section 395(1)(b) of the Act.⁷ It shall consider whether amendments are required to comply with paragraph 5(b) of FRS 101, but it does not reapply the provisions of IFRS 1. Where amendments to the recognition, measurement and disclosure requirements of EU-adopted IFRS in accordance with paragraph 5(b) of FRS 101 are required, the entity shall determine whether the amendments have a material effect on the first financial statements presented. Where there is:
- (a) no material effect, the qualifying entity shall disclose that it has undergone transition to FRS 101 and a brief narrative of the disclosure exemptions adopted, for all periods presented; or
 - (b) a material effect, the qualifying entity's first financial statements shall include:
 - (i) a description of the nature of each material change in accounting policy;
 - (ii) reconciliations of its equity determined in accordance with EU-adopted IFRS to its equity determined in accordance with FRS 101 for both the date of transition to FRS 101 and for the end of the latest period presented in the entity's most recent annual financial statements prepared in accordance with EU-adopted IFRS; and
 - (iii) a reconciliation of the profit or loss determined in accordance with EU-adopted IFRS to its profit or loss determined in accordance with FRS 101 for the latest period presented in the entity's most recent annual financial statements prepared in accordance with EU-adopted IFRS.
- 13 Where paragraph 12(b) applies but it is impracticable to apply the amendments retrospectively, a qualifying entity shall apply the amendments to the earliest period for which it is practicable to do so, and it shall identify the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform with the reduced disclosure framework set out in FRS 101.

⁷ Further relevant information can be found at paragraph A2.14 of Appendix II.

Withdrawal of current accounting standards

- 14 The following SSAPs, FRSs and UITF Abstracts are superseded on the early application of this FRS. These SSAPs, FRSs and UITF Abstracts will be withdrawn for accounting periods beginning on or after 1 January 2015.

| | |
|-----------------|--|
| SSAP 4 | <i>Accounting for government grants;</i> |
| SSAP 5 | <i>Accounting for value added tax;</i> |
| SSAP 9 | <i>Stocks and long-term contracts;</i> |
| SSAP 13 | <i>Accounting for research and development;</i> |
| SSAP 19 | <i>Accounting for investment properties;</i> |
| SSAP 20 | <i>Foreign currency translation;</i> |
| SSAP 21 | <i>Accounting for leases and hire purchase contracts; including the Guidance Notes on SSAP 21;</i> |
| SSAP 25 | <i>Segmental reporting;</i> |
| FRS 1 | <i>Cash flow statements (revised 1996);</i> |
| FRS 2 | <i>Accounting for subsidiary undertakings;</i> |
| FRS 3 | <i>Reporting financial performance;</i> |
| FRS 4 | <i>Capital instruments;</i> |
| FRS 5 | <i>Reporting the substance of transactions;</i> |
| FRS 6 | <i>Acquisitions and mergers;</i> |
| FRS 7 | <i>Fair values in acquisition accounting;</i> |
| FRS 8 | <i>Related party disclosures;</i> |
| FRS 9 | <i>Associates and joint ventures;</i> |
| FRS 10 | <i>Goodwill and intangible assets;</i> |
| FRS 11 | <i>Impairment of fixed assets and goodwill;</i> |
| FRS 12 | <i>Provisions, contingent liabilities and contingent assets;</i> |
| FRS 13 | <i>Derivatives and other financial instruments: disclosures;</i> |
| FRS 15 | <i>Tangible fixed assets;</i> |
| FRS 16 | <i>Current tax;</i> |
| FRS 17 | <i>Retirement benefits;</i> |
| FRS 18 | <i>Accounting policies;</i> |
| FRS 19 | <i>Deferred tax;</i> |
| FRS 20 (IFRS 2) | <i>Share-based payment;</i> |
| FRS 21 (IAS 10) | <i>Events after the balance sheet date;</i> |
| FRS 22 (IAS 33) | <i>Earnings per share;</i> |
| FRS 23 (IAS 21) | <i>The effects of changes in foreign exchange rates;</i> |
| FRS 24 (IAS 29) | <i>Financial reporting in hyperinflationary economies;</i> |
| FRS 25 (IAS 32) | <i>Financial instruments: Presentation;</i> |
| FRS 26 (IAS 39) | <i>Financial instruments: Recognition and Measurement;</i> |
| FRS 27 | <i>Life Assurance;</i> |

| | |
|-------------------|--|
| FRS 28 | <i>Corresponding amounts;</i> |
| FRS 29 (IFRS 7) | <i>Financial instruments: Disclosures;</i> |
| FRS 30 | <i>Heritage assets;</i> |
| UITF Abstract 4: | <i>Presentation of long-term debtors in current assets;</i> |
| UITF Abstract 5: | <i>Transfers from current assets to fixed assets;</i> |
| UITF Abstract 9: | <i>Accounting for operations in hyper-inflationary economies;</i> |
| UITF Abstract 11: | <i>Capital instruments: Issuer call options;</i> |
| UITF Abstract 15: | <i>Disclosure of substantial acquisitions (Revised 1999);</i> |
| UITF Abstract 19: | <i>Tax on gains and losses on foreign currency borrowings that hedge an investment in a foreign enterprise;</i> |
| UITF Abstract 21: | <i>Accounting issues arising from the proposed introduction of the euro;</i> |
| UITF Abstract 22: | <i>The acquisition of a Lloyd's business;</i> |
| UITF Abstract 23: | <i>Application of the transitional rules in FRS 15;</i> |
| UITF Abstract 24: | <i>Accounting for start-up costs;</i> |
| UITF Abstract 25: | <i>National Insurance contributions on share option gains;</i> |
| UITF Abstract 26: | <i>Barter transactions for advertising;</i> |
| UITF Abstract 27: | <i>Revision to estimates of the useful economic life of goodwill and intangible assets;</i> |
| UITF Abstract 28: | <i>Operating lease incentives;</i> |
| UITF Abstract 29: | <i>Website development costs;</i> |
| UITF Abstract 31: | <i>Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate;</i> |
| UITF Abstract 32: | <i>Employee benefit trusts and other intermediate payment arrangements;</i> |
| UITF Abstract 34: | <i>Pre-contract costs;</i> |
| UITF Abstract 35: | <i>Death-in-service and incapacity benefits;</i> |
| UITF Abstract 36: | <i>Contracts for sales of capacity;</i> |
| UITF Abstract 38: | <i>Accounting for ESOP trusts;</i> |
| UITF Abstract 39: | <i>(IFRIC Interpretation 2) Members' shares in co-operative entities and similar instruments;</i> |
| UITF Abstract 40: | <i>Revenue recognition and service contracts;</i> |
| UITF Abstract 41: | <i>(IFRIC Interpretation 8) Scope of FRS 20 (IFRS 2);</i> |
| UITF Abstract 42: | <i>(IFRIC Interpretation 9) Reassessment of embedded derivatives;</i> |
| UITF Abstract 43: | <i>The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985;</i> |
| UITF Abstract 44: | <i>(IFRIC Interpretation 11) FRS 20 (IFRS 2) Group and Treasury Share Transactions;</i> |
| UITF Abstract 45: | <i>(IFRIC Interpretation 6) Liabilities arising from participating in a specific market – Waste electrical and electronic equipment;</i> |
| UITF Abstract 46: | <i>(IFRIC Interpretation 16) Hedges of a net investment in a foreign operation;</i> |

UITF Abstract 47: *(IFRIC Interpretation 19) Extinguishing financial liabilities with equity instruments; and*

UITF Abstract 48: *Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits.*

15 The following statements are also withdrawn:

Statement of Principles for Financial Reporting;

Statement of Principles for Financial Reporting – Interpretation for public benefit entities;

Reporting Statement: Retirement Benefits – Disclosures;

Reporting Statement: Preliminary announcements; and

Reporting Statement: Half-yearly financial reports.

15A The *Financial Reporting Standard for Smaller Entities* (effective January 2015) (FRSSE) is superseded on the early application of the amendments set out in *Amendments to FRS 100* (and the related amendments to other accounting standards, particularly FRS 102 and FRS 105) issued in July 2015 and the early application of *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) and is withdrawn for accounting periods beginning on or after 1 January 2016.

Application Guidance: The Interpretation of Equivalence

This application guidance forms an integral part of FRS 100

Introduction

- AG1 Section 401 of the Act exempts, subject to certain conditions, an intermediate parent from the requirement to prepare consolidated financial statements where its parent is not established under the law of an EEA state. The exemption is conditional on the company and all of its subsidiaries being included in consolidated financial statements for a larger group drawn up to the same date, or an earlier date in the same financial year, and those financial statements must be drawn up:
- (a) in accordance with, or in a manner that is equivalent to, the Accounting Directive (Section 401(2)(b)(i) and (ii));
 - (b) in accordance with EU-adopted IFRS (Section 401(2)(b)(iii)); or
 - (c) in accordance with accounting standards which are equivalent to EU-adopted IFRS, as determined in accordance with the EU mechanism (see paragraph AG7) (Section 401(2)(b)(iv)).
- AG2 FRS 101 and FRS 102 permit certain exemptions from disclosures, but those exemptions are in some cases subject to **equivalent** disclosures being included in the consolidated financial statements of the group in which the entity is consolidated.
- AG3 This Application Guidance provides guidance on interpreting the meaning of equivalence in the two circumstances set out above.

Section 401 of the Companies Act 2006

- AG4 Use of the exemption in section 401(2)(b)(ii) requires an analysis of a particular set of consolidated financial statements to determine whether they are drawn up in a manner equivalent to consolidated financial statements that are drawn up in accordance with the Accounting Directive. This Application Guidance aims to assist entities in adopting a consistent approach to this issue. In the absence of this guidance, companies and their auditors might feel obliged to take an overly cautious approach in response to uncertainty about whether the exemptions can be used.
- AG5 It is generally accepted that the reference to equivalence in section 401(2)(b)(ii) of the Act does not mean compliance with every detail of the Accounting Directive. When assessing whether consolidated financial statements of a higher non-EEA parent are drawn up in a manner equivalent to consolidated financial statements drawn up in accordance with the Accounting Directive, it is necessary to consider whether they meet the basic requirements of the Accounting Directive; in particular the requirement to give a true and fair view, without implying strict conformity with each and every provision. A qualitative approach is more in keeping with the deregulatory nature of the exemption than a requirement to consider the detailed requirements on a checklist basis.
- AG6 The consequences of the exemptions in section 401(2)(b) and adopting the principle in paragraph AG5 in relation to section 401(2)(b)(ii) are that consolidated financial statements of the higher parent will meet the exemption or the test of equivalence in the Accounting Directive if they are intended to give a true and fair view and:
- (a) are prepared in accordance with FRS 102;

- (b) are prepared in accordance with EU-adopted IFRS;
- (c) are prepared in accordance with IFRS, subject to the consideration of the reasons for any failure by the European Commission to adopt a standard or interpretation; or
- (d) are prepared using other GAAPs which are closely related to IFRS, subject to consideration of the effect of any differences from EU-adopted IFRS.

Consolidated financial statements of the higher parent prepared using other GAAPs or the IFRS for SMEs should be assessed for equivalence with the Accounting Directive based on the particular facts, including the similarities to and differences from the Accounting Directive.

AG7 A mechanism to determine the equivalence of the Generally Accepted Accounting Principles (GAAP) from third countries was established in 2007. Subsequently, the European Commission has identified as equivalent to IFRS the following:

| GAAP | Applicable from |
|--|------------------------|
| GAAP of Japan | 1 January 2009 |
| GAAP of the United States of America | 1 January 2009 |
| GAAP of the People's Republic of China | 1 January 2012 |
| GAAP of Canada | 1 January 2012 |
| GAAP of the Republic of Korea | 1 January 2012 |

Further, third country issuers shall be permitted to prepare their annual consolidated financial statements and half-yearly consolidated financial statements in accordance with the Generally Accepted Accounting Principles of the Republic of India for financial years starting before 1 January 2015. For reporting periods beginning on or after 1 January 2015, in relation to GAAP of the Republic of India, equivalence should be assessed on the basis of the particular facts.

Equivalent disclosures are included in the consolidated financial statements of the group

AG8 In deciding whether the consolidated financial statements of the parent provide disclosures which are equivalent to the requirements of EU-adopted IFRS or FRS 102, from which relief is provided in paragraphs 8 to 9 of FRS 101 and paragraphs 1.12 to 1.13 of FRS 102 respectively, it is necessary to consider whether the consolidated financial statements of the parent provide disclosures that meet the basic disclosure requirements of the relevant standard or interpretation issued (or adopted) by the relevant standard setter, without requiring strict conformity with each and every disclosure. This assessment should be based on the particular facts, including the similarities to and differences from the requirements of the relevant standard from which relief is provided.

AG9 The concept of 'equivalence' described in paragraph AG8 is intended to be aligned to that described for section 401 of the Act.

AG10 Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements, even where the disclosures are made in aggregate or in an abbreviated form, or in relation to intra-group balances, those intra-group balances have been eliminated on consolidation. If,

however, no disclosure is made in the consolidated financial statements on the grounds of materiality, the relevant disclosures should be made at the subsidiary level if material in those financial statements.

Approval by the FRC

Financial Reporting Standard 100 *Application of Financial Reporting Requirements* was approved for issue by the Board of the Financial Reporting Council on 1 November 2012, following its consideration of the Accounting Council's advice for this FRS.

Amendments to FRS 100 Application of Financial Reporting Requirements was approved for issue by the Board of the Financial Reporting Council on 1 July 2015, following its consideration of the Accounting Council's Advice.

The Accounting Council's Advice to the FRC to issue FRS 100

Introduction

- 1 This report provides an overview of the main issues which have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRS 100 *Application of Financial Reporting Requirements*. The FRC, in accordance with the Statutory Instrument *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is the 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.
- 2 In accordance with *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC 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.
- 3 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 4 The Accounting Council is advising the FRC to issue:
FRS 100 *Application of Financial Reporting Requirements*; and
FRS 101 *Reduced Disclosure Framework*.
- 5 FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* completes the new suite of financial reporting standards. The Accounting Council will provide its advice to the FRC on FRS 102 in that standard.

Background

- 6 Accounting standards were formerly developed by the Accounting Standards Board (ASB). The ASB commenced its project to update accounting standards in 2002; Appendix III provides a history of the previous consultations and a summary of how the overall proposals have developed.⁸

⁸ References in this section and Appendix III are made to the FRC, ASB or Accounting Council, as appropriate in terms of the time period and context of the reference.

- 7 The ASB (and subsequently the Accounting Council) gave careful consideration to the project's objective and intended effects during its consultations on updating accounting standards. In developing the requirements in this FRS, FRS 101 and FRS 102, the overriding objective 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.

- 8 In achieving this objective, the ASB decided (and the Accounting Council subsequently agreed) that it should provide succinct financial reporting standards that:
- have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
 - reflect up-to-date thinking and developments in the way businesses operate and the transactions they undertake;
 - 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;
 - promote efficiency within groups; and
 - are cost-effective to apply.
- 9 The requirements in this FRS were principally consulted on in two exposure drafts; FRED 43 *Application of Financial Reporting Requirements* issued in October 2010, and FRED 46 *Application of Financial Reporting Requirements* (revised) issued in January 2012.

A differential financial reporting system and the elimination of 'public accountability'

- 10 In the early stages of developing this FRS, the ASB consulted on whether to introduce a differential financial reporting system. A differential system requires an entity to apply specified accounting standards as prescribed based on the size, nature or other differentiating feature of the entity. FRED 43 set out proposals for a differential financial reporting system based on three tiers of entities using public accountability and size as differentiators. The proposals in FRED 43 would have extended the application of EU-adopted IFRS to those entities with public accountability⁹. Whilst there was some support for a differential financial reporting system, entities that would be required to apply EU-adopted IFRS did not support the proposal, principally on the basis of costs and benefits.
- 11 The ASB gave careful consideration to the concerns raised and concluded that public accountability (and therefore the differential financial reporting system) could be eliminated if it were to extend the proposals by including additional requirements in FRED 44 *Financial Reporting Standard for Medium-sized Entities* for entities with publicly traded debt or equity, and for financial institutions, so that the proposals in that FRED

⁹ FRED 43 defined an entity as having public accountability if:

- (a) as at the reporting date, its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) as one of its primary businesses, it holds assets in a fiduciary capacity for a broad group of outsiders and/or it is a deposit taking entity for a broad group of outsiders. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds or investment banks.

applied to a broader group of entities. FRED 44 proposed to replace the majority of extant financial reporting standards with a single standard based on the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). As a consequence, FRED 44 was revised and FRED 48 issued, which addressed a broader group of entities including those previously considered to have public accountability, single entities listed on a regulated market, entities listed on a non-regulated market and additional disclosure requirements for financial instruments held by financial institutions.

- 12 Respondents to FRED 46 supported the removal of the public accountability criteria and the Accounting Council agreed to advise the FRC not to extend the application of EU-adopted IFRS beyond that already required by company law or other legislation or regulation.
- 13 Once this FRS becomes effective, there will be five FRSs applicable in the UK and Republic of Ireland:
 - FRS 100 *Application of Financial Reporting Requirements*;
 - FRS 101 *Reduced Disclosure Framework*;
 - FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
 - *Financial Reporting Standard for Smaller Entities* (effective January 2015) (the FRSSE); and
 - FRS 27 *Life assurance*.¹⁰

FRS 101 *Reduced disclosure framework*

- 14 FRS 101 was developed in response to concerns that arose from earlier consultations (see Appendix III). Respondents to those consultations (and particularly the 2009 Policy Proposal) noted that a move to the IFRS for SMEs for subsidiaries of entities that apply EU-adopted IFRS would require recognition and measurement differences to be monitored and maintained at group level, and yet the alternative of a move to EU-adopted IFRS would increase disclosure in comparison to current accounting standards. The ASB therefore developed a reduced disclosure framework to address these concerns.
- 15 Further details regarding the development of FRS 101 are located in the Accounting Council's Advice to the FRC accompanying that FRS.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

- 16 FRS 102 will replace the majority of current accounting standards applicable in the UK and Republic of Ireland with a single FRS based on the IFRS for SMEs. Details of the development of FRS 102 will be set out in the Accounting Council's Advice to the FRC accompanying that FRS. One member of the Accounting Council considers that the level of input from users does not constitute adequate consultation, despite extensive efforts at outreach, and holds an alternative view on aspects of the Accounting Council's expected advice on FRS 102.

¹⁰ At the time of approving this advice consideration is being given to updating FRS 27.

The Financial Reporting Standard for Smaller Entities (FRSSE)

- 17 The Accounting Council advises the FRC (consistent with FREDs 43 and 46) to retain the FRSSE for a period following the application of FRS 102, with a view to consulting again on the FRSSE's future in the short to medium term.
- 18 The eligibility criteria for applying the FRSSE are set out in paragraph 8 of the FRSSE. One of the criteria is that the entity must be 'small' as defined in company law. Turnover and balance sheet total should be measured in accordance with 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.
- 19 The Accounting Council also advises the FRC to undertake further consultation to address the implications for the FRSSE of:
 - (a) the European Commission proposals arising from its review of the EU Accounting Directives (an initial proposed Directive was issued in October 2011); and
 - (b) the Directive on annual accounts of micro-entities that was approved by the European Council in February 2012.
- 20 The amendments to the FRSSE set out in this FRS arise as a consequence of withdrawing current accounting standards.

Statements of Recommended Practice (SORPs)

- 21 In its 2009 Policy Proposal, the ASB's recommendation was to remove almost all of the SORPs. Respondents to the Policy Proposal questioned this and many noted that SORPs contribute to improving the quality of financial reporting in the UK. Instead FRED 43 proposed to streamline the number of SORPs in existence. Respondents to FRED 43 were supportive of this revised proposal. The decision, however, to eliminate the definition of public accountability and thereby broaden the scope of entities eligible to apply FRS 102 had a consequential impact on the SORPs (for example, pension funds would no longer be required to apply EU-adopted IFRS), so the ASB amended its proposals again in FRED 48.
- 22 The proposals in FRED 48 received support and the Accounting Council is now advising the FRC that they be taken forward, as follows:

| SORP | Accounting Council Advice |
|------------------------------------|--|
| Accounting for insurance business | A separate consultation will be undertaken on accounting for insurance |
| Accounting for oil & gas | The SORP-making body has indicated that they do not believe that it would make sense to update the 2001 SORP |
| Authorised funds | Update to be based on FRS 102 |
| Banking segments | Withdraw |
| Charities | Update to be based on FRS 102 |
| Financial reports of pension funds | Update for consistency with FRS 102 to supplement Section 34 of FRS 102 |
| Further and higher education | Update to be based on FRS 102 |
| Investment companies | Update to be based on FRS 102 |

| | |
|-------------------------------------|-------------------------------|
| Leasing | Withdraw |
| Limited liability partnerships | Update to be based on FRS 102 |
| Registered social housing providers | Update to be based on FRS 102 |

- 23 In response to a request for clarification as to the role of the SORPs, the Accounting Council is advising the FRC that a reference to the application of SORPs be included in this FRS and in Section 10 *Accounting policies, estimates and errors* of FRS 102, to note that they are a source of guidance on accounting policies.

Clarification of equivalence

- 24 FRS 101 and FRS 102 permit certain exemptions from disclosures, which are in some cases subject to equivalent disclosures being included in the consolidated financial statements of the group in which the entity is consolidated. Clarification on interpreting the meaning of the term equivalence is included in Application Guidance I of this FRS.

Withdrawn publications

- 25 Paragraph 14 of this FRS sets out the withdrawal of current accounting standards. For the avoidance of doubt, the Accounting Council (and FRC) will also not proceed with developing the following superseded Financial Reporting Exposure Drafts (FREDs):

Leases: Implementation of a new approach

IASB Exposure draft of a proposed IFRS for small and medium-sized entities (Issued April 2007)

FRED 22 *Revision of FRS 3 Reporting financial performance*

FRED 28 *Inventories: Construction and service contracts*

FRED 29 *Property, plant and equipment: Borrowing costs*

FRED 32 *Disposal of non-current assets and presentation of discontinued operations*

FRED 36 *Business combinations*

FRED 37 *Intangible assets (IAS 38) and FRED 38 Impairment of assets (IAS 36)*

FRED 39 *Amendments to FRS 12 Provisions, contingent liabilities and contingent assets and FRS 17 Retirement benefits*

FRED 43 *Application of Financial Reporting Requirements*

FRED 44 *The Financial Reporting Standards for Medium-sized Entities*

FRED 45 *The Financial Reporting Standard for Public Benefit Entities*

Effective date and early application

- 26 In reassessing the effective date as proposed in FREDs 46 to 48, the Accounting Council supports the previous view of the ASB that application should be deferred to January 2015 for the following reasons:

- (a) although the revisions to the ASB's original proposals should ease the transition, an 18 month period between the publication of the final standard and effective date should be retained as there are significant changes to the accounting requirements for financial instruments; and
- (b) the effective date should take into consideration the process of updating the SORPs.

27 This decision was reassessed by the Accounting Council when it considered the responses to FREDs 46 to 48. It decided that it was not necessary to have the same early application provisions for FRS 101, FRS 102 and the FRSSE (effective January 2015) and that specific requirements relating to early application should be set out separately in each standard.

Approval of this advice

28 This advice to the FRC was approved by the nine members of the Accounting Council on 25 October 2012. The Accounting Council is comprised of the following members:

Roger Marshall (Chair of the Accounting Council)

Nick Anderson

Dr Richard Barker

Edward Beale

Peter Elwin

Ken Lever

Robert Overend

Andy Simmonds

Pauline Wallace

The Accounting Council's Advice to the FRC to issue Amendments to FRS 100

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 FRS 100 Application of Financial Reporting Requirements* incorporating the Council's advice following the Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive* and *FRED 60 Draft amendments to FRS 100 and FRS 101*.
- 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 *Amendments to FRS 100 Application of Financial Reporting Requirements*.
- 6 The Accounting Council advises that these proposals will update the framework of accounting standards and maintain consistency of accounting standards with company law.
- 7 The Accounting Council's Advice to the FRC to issue *FRS 100 Application of Financial Reporting Requirements* was set out in the standard. The Accounting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 100.

Background

- 8 The new EU Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013) is being implemented in the UK and Republic of Ireland. In doing so there are 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 are also 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*¹¹ (the Consultation Document), outlining its proposal that the *Financial Reporting Standard for Smaller Entities* (FRSSE) would be withdrawn. A small number of amendments to FRS 100 would also be necessary to maintain consistency with company law. The Accounting Council considered the responses to the Consultation Document in developing FRED 60 *Draft amendments to FRS 100 and FRS 101*. It has also considered the responses to FRED 60, which was issued in February 2015, in developing its advice on these amendments.

Objective

- 10 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.
- 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.

Small entities regime

- 12 In the Consultation Document and FRED 60 the FRC proposed that the FRSSE should be withdrawn and that it should be replaced with:
- (a) a new standard for micro-entities, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*; and
 - (b) for small entities ineligible for or choosing not to apply the micro-entities regime, it should be replaced with a new Section 1A *Small Entities* within FRS 102.

This proposal was supported by respondents and the Accounting Council advises that the FRSSE is withdrawn, with consequential amendments made to FRS 100 *Application of Financial Reporting Requirements* to set out the revised framework.

Other minor amendments

- 13 The Accounting Council advises that other minor amendments are made to FRS 100 for compliance with company law. This principally relates to the *Application Guidance: The Interpretation of Equivalence*.
- 14 One respondent to FRED 60 requested clarification relating to the meaning of equivalent disclosures included in the consolidated financial statements in relation to intra-group balances eliminated on consolidation. The Accounting Council agreed that this could

¹¹ Available on the FRC website (www.frc.org.uk).

usefully be clarified whilst amendments were being made to the *Application Guidance: The Interpretation of Equivalence* and advises that it is made clear that, provided relevant disclosures have been made in the consolidated financial statements, the exemption is permitted when intra-group balances have been eliminated on consolidation. This is, of course, subject to any disclosures that are required by law.

Effective date

- 15 The Accounting Council advises that the amendments to FRS 100 arising from the implementation of the new Accounting Directive are effective for accounting periods beginning on or after 1 January 2016, with early application available providing an entity also applies the edition of FRS 101, FRS 102 or FRS 105 effective for accounting periods beginning on or after 1 January 2016 and subject to the early application provisions set out in those standards.

Approval of this Advice

- 16 This advice to the FRC was approved by the Accounting Council on 4 June 2015.

Appendix I: Glossary

| | |
|------------------------------|--|
| Accounting Directive | Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 |
| Act | The Companies Act 2006 |
| date of transition | The beginning of the earliest period for which an entity presents full comparative information under a given standard in its first financial statements that comply with that standard. |
| EU-adopted IFRS | IFRS that have been adopted in the European Union in accordance with EU Regulation 1606/2002. |
| financial institution | <p>Any of the following:</p> <ul style="list-style-type: none"> (a) a bank which is: <ul style="list-style-type: none"> (i) a firm with a Part IV permission¹² which includes accepting deposits and: <ul style="list-style-type: none"> (a) which is a credit institution; or (b) whose Part IV permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or a credit union; (ii) an EEA bank which is a full credit institution; (b) a building society which is defined in section 119(1) of the Building Societies Act 1986 as a building society incorporated (or deemed to be incorporated) under that act; (c) a credit union, being a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act 1979, which is an authorised person; (d) custodian bank, broker-dealer or stockbroker; (e) an entity that undertakes the business of effecting or carrying out insurance contracts, including general and life assurance entities; (f) an incorporated friendly society incorporated under the Friendly Societies Act 1992 or a registered friendly society registered under section 7(1)(a) of the Friendly Societies Act 1974 or any enactment which it replaced, including any registered branches; (g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); (h) a retirement benefit plan; or |

¹² As defined in section 40(4) of the Financial Services and Markets Act 2000 or references to equivalent provisions of any successor legislation.

| | |
|--|--|
| | <p>(i) any other entity whose principal activity is to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities similar to those listed above but are not specifically included in the list above.</p> <p>A parent entity whose sole activity is to hold investments in other group entities is not a financial institution.</p> |
| FRS 100 | FRS 100 <i>Application of Financial Reporting Requirements</i> |
| FRS 101 | FRS 101 <i>Reduced Disclosure Framework</i> |
| FRS 102 | FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i> |
| FRS 105 | FRS 105 <i>The Financial Reporting Standard applicable to the Micro-entities Regime</i> |
| IAS Regulation | EU Regulation 1606/2002 |
| IFRS | <p>Standards and interpretations issued (or adopted) by the International Accounting Standards Board (IASB). They comprise:</p> <p>(a) International Financial Reporting Standards;</p> <p>(b) International Accounting Standards; and</p> <p>(c) Interpretations developed by the IFRS Interpretations Committee (the Interpretations Committee) or the former Standing Interpretations Committee (SIC).</p> |
| individual financial statements | <p>The accounts that are required to be prepared by an entity in accordance with the Act or relevant legislation, for example:</p> <p>(a) ‘individual accounts’, as set out in section 394 of the Act;</p> <p>(b) ‘statement of accounts’, as set out in section 132 of the Charities Act 2011; or</p> <p>(c) ‘individual accounts’, as set out in section 72A of the Building Societies Act 1986.</p> <p>Separate financial statements are included in the meaning of this term.</p> |
| public benefit entity | An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members. |
| qualifying entity (for the purposes of FRS 100 and FRS 101) | <p>A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation¹³.</p> <p>A charity may not be a qualifying entity.</p> |

¹³ As set out in section 474(1) of the Act.

| | |
|---|--|
| small entity | <ul style="list-style-type: none"> (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 LLP Regulations; or (c) any other entity that would have met the criteria in (a) had it been a company incorporated under company law. |
| Statement of Recommended Practice (SORP) | <p>An extant Statement of Recommended Practice developed in accordance with <i>SORPs: Policy and Code of Practice</i>. SORPs recommend accounting practices for specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector.</p> |

Appendix II: Note on legal requirements

Introduction

- A2.1 This appendix provides an overview of how the requirements in FRS 100 address United Kingdom company law requirements. It is therefore written from the perspective of a company to which the Companies Act 2006 applies¹⁴. Appendix IV discusses the Republic of Ireland legal references.
- A2.2 Many entities that are not constituted as companies apply accounting standards promulgated by the FRC for the purposes of preparing financial statements that present a true and fair view. A brief consideration of the legal framework for some other entities can be found at A2.20 and A2.21. For those entities that are within the scope of a SORP, the relevant SORP may provide more details on the legal framework.
- A2.3 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).

Applicable accounting framework

- A2.4 Group accounts of certain parent entities (those with securities admitted for trading on a regulated market in an EU Member State) are required by Article 4 of EU Regulation 1606/2002 (IAS Regulation) to be prepared in accordance with EU-adopted IFRS.
- A2.5 All other entities, except those that are eligible and choose to apply FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, must apply either FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, EU-adopted IFRS or, for financial statements that are the individual financial statements of a qualifying entity, FRS 101 *Reduced Disclosure Framework*¹⁵.
- A2.6 Section 395(1) of the Act states:
- “A company’s individual accounts may be prepared—
- (a) in accordance with section 396 (“Companies Act individual accounts”), or
- (b) in accordance with international accounting standards (“IAS individual accounts”).”
- Section 403(2) of the Act states:
- “The group accounts of other companies may be prepared—
- (a) in accordance with section 404 (“Companies Act group accounts”), or
- (b) in accordance with international accounting standards (“IAS group accounts”).”
- A2.7 Accounts prepared in accordance with EU-adopted IFRS are therefore within the scope of the IAS Regulation. All other accounts are classified as either ‘Companies Act individual accounts’, including those of qualifying entities applying FRS 101, or ‘Companies Act group accounts’ and are therefore required to comply with the applicable provisions of Parts 15 and 16 of the Act and with the Regulations.

¹⁴ Some charities are also companies, and are therefore required to apply the requirements of both the Companies Act 2006 and the Charities Act 2011.

¹⁵ Under company law in the Republic of Ireland, certain companies are permitted to prepare Companies Act accounts using a financial reporting framework based on accounting standards other than those issued by the FRC.

Financial reporting by small entities

A2.8 *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) set out the legal framework for both the micro-entities regime and the small companies regime, with the eligibility criteria for both set out in Part 15 of the Act. FRS 105 and FRS 102 contain notes on legal requirements applicable to these regimes.

A2.9 [Deleted]

A2.10 [Deleted]

A2.11 [Deleted]

A2.12 [Deleted]

Financial reporting by charitable companies

A2.13 Section 395(2) of the Act states that 'the individual accounts of a company that is a charity must be Companies Act individual accounts', and section 403(3) of the Act mirrors this for a parent company that is a charity.

Moving between IAS accounts and Companies Act accounts

A2.14 Sections 395 and 403 of the Act restrict an entity's ability to move from preparing IAS individual accounts to preparing Companies Act individual accounts and from preparing IAS group accounts to preparing Companies Act group accounts respectively. A company or group is permitted to switch from IAS accounts to Companies Act accounts preparation:

- (a) if there is a 'relevant change in circumstance' (as defined in the Act); or
- (b) for financial years ending on or after 1 October 2012, for a reason other than a relevant change of circumstance, once in a five year period.¹⁶

A2.15 For example, provided the condition in section 395(4A) is met, a subsidiary company which previously prepared IAS individual accounts is permitted to move to preparing Companies Act individual accounts in applying FRS 101 or FRS 102, providing it is also complying with other requirements of the Act, such as those relating to consistency of financial reporting within groups

Consistency of financial reporting within groups

A2.16 Section 407 of the Act requires that the directors of the parent company secure that individual accounts of a parent company and each of its subsidiaries¹⁷ are prepared using the same financial reporting framework, except to the extent that in the directors' opinion there are good reasons for not doing so.

¹⁶ *The Companies and Limited Liability Partnership (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012* (SI 2012/2301).

¹⁷ This only applies to accounts of subsidiaries that are required to be prepared under Part 15 of the Act.

In addition, consistency is not required in the following situations:

- (a) when the parent company does not prepare consolidated accounts; or
- (b) when some subsidiaries are charities (consistency is not needed between the framework used for these and for other subsidiaries).

Where the directors of a parent company prepare IAS group accounts and IAS individual accounts, there only has to be consistency across the individual financial statements of the subsidiaries.

A2.17 All companies, other than those which elect or are required to prepare IAS individual accounts in accordance with law, prepare Companies Act individual accounts.

Applicability of UK company law to entities preparing IAS accounts

A2.18 Entities that prepare IAS accounts, either voluntarily or because they are required to do so by law, only need apply certain sections of the Act as it relates to financial reporting. They are not required to comply with Schedules 1 and 6 to the Regulations (for companies and groups), nor with Schedules 2 or 3 (for banks and insurance companies). Schedules 4, 5, 7 and 8 to the Regulations are, however, still applicable.

A2.19 The sections of parts 15 and 16 of the Act that contain financial reporting requirements applying to IAS accounts, as well as to Companies Act accounts, are as follows (in some cases the requirements only apply to companies meeting certain criteria):

| | |
|-----------------------|--|
| Section 410A | <i>Off-balance sheet arrangements;</i> |
| Section 411 | <i>Employee numbers and costs;</i> |
| Section 412 | <i>Directors' benefits: Remuneration;</i> |
| Section 413 | <i>Directors' benefits: Advances, credit and guarantees;</i> |
| Sections 414A to 414D | <i>Strategic Report;</i> |
| Sections 415 to 419 | <i>Directors' Report;</i> |
| Sections 420 to 421 | <i>Directors' Remuneration Report; and</i> |
| Section 494 | <i>Services provided by auditor and associates and related remuneration.</i> |

Entities not subject to company law

A2.20 Many entities that may apply FRS 102 are not companies, but are nevertheless required by their governing legislation or other regulation or requirement, to prepare financial statements that present a true and fair view of the financial performance and financial position of the reporting entity. However, the FRC sets accounting standards within the framework of the Act and therefore it is the company law requirements that the FRC primarily considered when developing FRS 102. Entities preparing financial statements within other legal frameworks will need to satisfy themselves that FRS 102 does not conflict with any relevant legal obligations.

A2.21 However, the FRC notes the following:

| Legislation | Overview of requirements |
|--|---|
| Building Societies Act 1986 | <p>The annual accounts of a building society shall give a true and fair view of the income and expenditure for the year and the balance sheet shall give a true and fair view of the state of affairs of the society at the end of the financial year.</p> <p>Regulations make further requirements about the form and content of building society accounts, which do not appear inconsistent with the requirement of FRS 102.</p> |
| Charity law in England and Wales: Charities Act 2011 and regulations made thereunder | <p>All charities are required to prepare accounts. The regulations require financial statements (other than cash-based receipts and payments accounts prepared by smaller charities) to present a true and fair view of the incoming resources, application of resources and the balance sheet, and to be prepared in accordance with the SORP. However company charities prepare their accounts in accordance with UK company law to give a 'true and fair view'.</p> <p>The Charities SORP (FRS 102) is compatible with the legal requirements, clarifying how they apply to accounting by charities applying FRS 102.</p> <p>UK Company law prohibits charities from preparing IAS accounts.</p> |
| Charity law in Scotland: Charities and Trustee Investments Act (Scotland) 2005 and regulations made thereunder | <p>All charities are required to prepare accounts. The regulations require financial statements (other than cash-based receipts and payments accounts prepared by smaller charities) to present a true and fair view of the incoming resources, application of resources and the balance sheet, and to be prepared in accordance with the SORP. These regulations apply equally to company charities.</p> |
| Charity law in Northern Ireland: Charities Act (Northern Ireland) 2008 | <p>The Charities Act 2008 has yet to come fully into effect. The Act provides for all charities to prepare accounts. The Act provides for regulations concerning the financial statements. The financial statements other than cash-based receipts and payments accounts prepared by smaller charities are to present a true and fair view of the incoming resources, application of resources and the balance sheet.</p> <p>However company charities prepare their accounts in accordance with UK company law to give a 'true and fair view'.</p> |
| Friendly and Industrial and Provident Societies Act 1968 | <p>Every Society shall prepare a revenue account and a balance sheet giving a true and fair view of the income and expenditure and state of affairs of the Society.</p> <p>FRS 102 does not appear to give rise to any legal conflicts for Societies. However, Societies often carry out activities that are regulated and may be required to comply with additional regulations on top of the legal requirements and accounting standards. Some Societies fall within the scope of SORPs, which reflect the requirements of FRS 102.</p> |

| Legislation | Overview of requirements |
|---|---|
| Friendly Societies Act 1992 | <p>Every society shall prepare a balance sheet and an income and expenditure account for each financial year giving a true and fair view of the affairs of the society and its income and expenditure for the year.</p> <p>The Regulations¹⁸ make further requirements about the form and content of friendly society accounts, which do not appear inconsistent with the requirements of FRS 102.</p> |
| The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 | <p>The accounts of pension funds within the scope of the regulations should show a true and fair view of the transactions during the year, assets held at the end of the year and liabilities of the scheme, other than those to pay pensions and benefits.</p> <p>FRS 102 includes retirement benefit plans as a specialised activity.</p> |

¹⁸ *The Friendly Societies (Accounts and Related Provisions) Regulations 1994* (as amended).

Appendix III: Previous consultations

History of previous consultations

A3.1 The requirements in FRSs 100 to 102 are the outcome of a lengthy and extensive consultation. The FRC (and formerly the ASB) together with the Department for Business, Innovation and Skills have consulted on the future of accounting standards in the UK and Republic of Ireland (RoI) over a ten-year period.

Table 1 – Consultations conducted

| Year | Consultation |
|------|--|
| 2002 | DTI ¹⁹ consults on adoption of IAS Regulation |
| 2004 | Discussion Paper – Strategy for Convergence with IFRS |
| 2005 | Exposure Draft – Policy Statement: The Role of the ASB |
| 2006 | Public Meeting and Proposals for Comment |
| 2006 | Press Notice seeking views |
| 2007 | Consultation Paper – Proposed IFRS for SMEs |
| 2009 | Consultation Paper – Policy Proposal: The future of UK GAAP |
| 2010 | Request for Responses – Development of the Impact Assessment |
| 2010 | Financial Reporting Exposure Drafts 43 and 44 |
| 2011 | Financial Reporting Exposure Draft 45 |
| 2012 | Financial Reporting Exposure Drafts 46, 47 and 48 |

2004

A3.2 In 2004 the Discussion Paper contained two key elements underpinning the proposals: firstly that UK and Republic of Ireland (RoI) accounting standards should be based on IFRS and secondly that a phased approach to the introduction of the standards should be adopted.

A3.3 The ASB embarked on the phased approach and issued a number of standards based on IFRS. The majority of respondents agreed with a framework based on IFRS, and although supportive overall, the response to the phased approach was mixed.

2005

A3.4 In its 2005 Exposure Draft (2005 ED) of a Policy Statement *Accounting standard-setting in a changing environment: The role of the Accounting Standards Board*, amongst other aspects of its role, the ASB identified its intention to converge with IFRS by implementing new IFRS in the UK as soon as possible. It also proposed to continue

¹⁹ The Department of Trade and Industry (DTI) was a United Kingdom government department which was replaced with the announcement of the creation of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills on 28 June 2007, which were themselves merged into the Department for Business, Innovation and Skills (BIS) on 6 June 2009.

the phased approach to adopting UK accounting standards based on older IFRSs, but recognised there was little case for being more prescriptive than IFRS.

- A3.5 Although the ASB had, in the 2005 ED, wanted to move the debate on to how it would seek to influence the IASB's agenda, respondents' main concern remained about convergence. In 2005, the ASB issued an exposure draft proposing the IASB's standard on Business Combinations be adopted in the UK and RoI. This exposure draft highlighted the complexity of a mixed set of UK accounting standards, with some based on IFRSs and others developed independently by the ASB. The majority of respondents continued to agree with the aim of basing UK accounting standards on IFRS, but a broader set of views on how to achieve this was emerging.
- A3.6 As time progressed the ASB formed the view that convergence by adopting certain IFRSs was not meeting the needs of its constituents, which no longer included quoted groups. The ASB was concerned about the complexity of certain IFRSs, and it noted that introducing them piecemeal created complications and anomalies within the body of current FRSs. This arose because IFRS-based standards were not an exact replacement for current FRSs and many consequential amendments were required to 'fit' each replacement IFRS-based standard into the existing body of UK FRS. The ASB agreed to continue with its convergence programme, but decided to re-examine how to achieve this.

2006

- A3.7 The ASB published revised proposals to be discussed at the 2006 public meeting. By this time the IASB had started its IFRS for SMEs project, and the ASB decided this might have a role as one of the tiers in the UK financial reporting framework. The ASB proposed a 'big bang' with new IFRS-based UK accounting standards mandatory from a single date, 1 January 2009. The ASB's proposal was for a three-tier system, with Tier 1 being EU-adopted IFRS, and the other two tiers being developed as the IASB progressed with its project on the IFRS for SMEs.
- A3.8 Those attending the public meeting supported the aim of basing UK and RoI accounting standards on IFRS and adapting them to ensure they were appropriate for the entities applying them.
- A3.9 Taking this feedback into account, later in 2006 the ASB issued a Press Notice (PN 289) seeking views on its current thinking:
- (a) All quoted and publicly accountable companies should apply EU-adopted IFRS.
 - (b) The FRSSE should be retained and extended to include medium-sized entities.
 - (c) UK subsidiaries of groups applying full IFRS should apply EU-adopted IFRS, but with reduced disclosure requirements.
 - (d) No firm decision on the remainder (Tier 2), but options included extending the FRSSE, extending full IFRS, maintaining separate UK accounting standards or some combination of these.
- A3.10 The responses were mixed, but there was agreement that whatever the solution, it should be based on IFRS and there should be different reporting tiers to ensure proportionality.

2007

- A3.11 The IASB published an exposure draft of its IFRS for SMEs in early 2007; shortly afterwards the ASB published its own consultation paper. This sought views on how the IFRS for SMEs might fit into the future UK financial reporting framework, for example

whether it might be appropriate for Tier 2, with the FRSSE continuing for those eligible for the small companies' regime.

- A3.12 Feedback on the IFRS for SMEs was largely positive: it would be suitable for Tier 2, it was international, it was compatible with IFRS, and it represented a significant simplification. Overall, it was seen as a workable alternative to IFRS. In addition, respondents wanted to retain the FRSSE (because it reduces the regulatory burden on smaller entities) and to give subsidiaries the option of applying the IFRS for SMEs as well as a reduced disclosure regime if applying full IFRS.

2009

- A3.13 The IFRS for SMEs was published in 2009, allowing the ASB to further develop its proposals in the Consultation Paper *Policy Proposal: The future of UK GAAP*. The proposals were largely consistent with the cumulative results of the preceding consultations and included:

- (a) a move to an IFRS-based framework;
- (b) a three-tier approach;
- (c) publicly accountable entities would be Tier 1 and would apply EU-adopted IFRS;
- (d) small companies would be Tier 3 and continue to apply the FRSSE; and
- (e) other entities would be Tier 2 and should apply a UK and RoI accounting standard based on the IFRS for SMEs.

- A3.14 The only significant proposal that was inconsistent with respondents' previous comments was that subsidiaries should simply apply the requirement of the tier they individually met – respondents had wanted subsidiaries to be able to take advantage of disclosure exemptions, and at that time the ASB had yet to be convinced that significant cost savings were available from a reduced disclosure framework. Taking into account the feedback received, this proposal was subsequently reversed and the reduced disclosure framework was incorporated into FREDs 43 and then 46, and it is now set out in FRS 101.

- A3.15 In addition to the many useful and detailed points made, some common themes included general agreement that change was needed to UK accounting standards and that there was support for many of the changes proposed in the consultation paper.

2010 onwards

- A3.16 The request for responses to aid development of the Impact Assessment focused on obtaining feedback on the expected costs, benefits and impact of the proposals subsequently set out in FREDs 43 and 44, rather than on the accounting principles. As the focus was on costs and benefits no specific question was asked about the principle of the proposed introduction of an IFRS-based framework, but nevertheless respondents commented on this: of the 32 responses received only 12.5% did not agree with the introduction of an IFRSbased framework.

- A3.17 FRED 43 and 44 issued in October 2010 set out the draft suggested text for two new accounting standards that would replace the majority of extant Financial Reporting Standards (current FRS) in the UK and RoI. The ASB issued a supplementary FRED addressing specific needs of public benefit entities (FRED 45) in March 2011. The ASB then updated FREDs 43, 44 and 45, replacing them with the revised FREDs 46, 47 and 48 in January 2012, by eliminating the concept of public accountability and by introducing a number of accounting treatment options that are available in EU-adopted IFRS. The Accounting Council's advice to the FRC to issue FRSs 100 to 102 includes

more discussion of the feedback received on FREDs 43 to 48 and how the proposals have been refined and developed into the standards.

How have the proposals been developed?

A3.18 As set out above, the FRC, the Accounting Council (and previously the ASB) have consulted regularly on the future of financial reporting in the UK and RoI. Over the consultations the ASB's (and the Accounting Council's) thinking has evolved based on careful consideration of the feedback at each stage. Whilst responses were sometimes mixed, there has been agreement that:

- (a) current FRS, which are a mixture of Statements of Standard Accounting Practice (SSAPs) issued by the Consultative Committee of Accounting Bodies, FRSs developed and issued by the ASB and IFRS-based standards issued by the ASB to converge with international standards, are an uncomfortable mismatch that lack strong underlying principles or cohesion; and
- (b) whatever the solution, it should be based on IFRS and there should be different reporting tiers to ensure proportionality.

A3.19 During the consultation process to date, the Accounting Council and formerly the ASB have been guided by the following principles:

- (a) The framework must be fit for purpose, so that each entity required to produce true and fair financial statements under UK and RoI law will deliver financial statements that are suited to the needs of its primary users. The Accounting Council has kept in close contact with constituent users on this point, including investors, creditor institutions and the tax authorities.
- (b) The framework must be proportionate, so that preparing entities are not unduly burdened by costs that outweigh the benefit to them and to the primary users of information in their financial statements. The FRC believes that the proposals will produce a lower cost regime, while enhancing user benefits. It has carried out a consultation stage impact assessment with input from interested parties, and will continue to assess cost-benefit issues.
- (c) The framework must be in line with UK company law. This determines which entities must produce true and fair financial statements. Exemptions within the law have generally been retained. The detailed requirements of the Companies Act 2006 are driven to a great extent by the European Accounting Directives, which are being revised²⁰.
- (d) The framework must be future-proofed, where possible. The FRC will continue to monitor the situation and has sovereignty over UK accounting standards (subject to the law). Changes to the Accounting Directives may lead to further developments, for example the European Council and European Parliament decision to permit Member States an option to treat micro-entities as a separate category of Company and exempt them from certain accounting requirements.

Summary of outreach

A3.20 During the development and throughout the consultation period of FREDs 43 to 48, the ASB undertook an extensive programme of outreach aimed at raising awareness of the proposals and to address the view (held by some) that previous consultations had not gathered sufficient evidence to support and test the assumptions made.

²⁰ The EU's consultation process on review of the Accounting Directives is summarised at http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm

- A3.21 As part of the outreach programme to obtain both formal and informal feedback, a series of meetings and events took place with users, including with lenders to small and medium-sized entities. Lenders noted that financial statements are an important part of their decision-making process when considering whether to provide finance and, whilst a decision to provide finance is not based on financial statements alone, they provide useful information and verification to the lender.
- A3.22 Although the ASB and the Accounting Council employed their best efforts to obtain feedback from users (a constituent group historically difficult to engage with formally) it is disappointing that limited formal responses were received and the Accounting Council has not been more successful in obtaining input from users.
- A3.23 In addition, a review was made of academic research that addressed the users of the financial statements of small and medium-sized entities. The conclusion drawn from the research was that many entities requested financial statements from Companies House when considering whether to trade with another entity. The European Federation of Accountants and Auditors (EFAA) issued, in May 2011, a statement that identified the users of financial statements, noting who the users of SMEs' financial statements are and that information on the public record assists all users of financial statements of SMEs by providing, in an efficient manner, basic information that protects their rights.
- A3.24 The ASB considered that the outreach programme had gleaned information from people who would not normally submit formal responses to a consultation and provided very useful information that could be used in developing the next stage of the project. The ASB noted that whilst this information was not part of the public record, as are formal consultation responses, it could use the information to assist in developing the revised FREDs 46 to 48, supplementing information contained in responses, and would seek further comment in the next stage of its deliberations.
- A3.25 The Accounting Council continued the work of the ASB in finalising FRSs 100 to 102. The responses to FREDs 46 to 48 were analysed and discussed, and engagements were conducted to take into account the views and suggestions of all relevant associations and contacts. Respondents and outreach contacts were satisfied with FREDs 46 to 48, and many of the response letters were forthcoming in their overall praise for the proposals. A significant number of constituents anticipated cost savings arising from the application of FRS 101. Many respondents considered that FRS 102 would improve UK accounting standards, in particular by introducing requirements for accounting for financial instruments. Further they considered that the improvements will be achieved in a way that will be proportionate to the needs of users, and that once the transition phase has been overcome, it will have the effect of reducing the reporting burden on those UK companies that adopt it.

Appendix IV: Republic OF Ireland (RoI) legal references

- A4.1 Appendix IV: *Republic of Ireland (RoI) legal references* will be updated as appropriate for both the Companies Act 2014 and the Irish legislation implementing the EU Accounting Directive once the latter has been made. This will be made available on the FRC website and included in the next edition of FRS 100.



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