



Understanding the New UK GAAP for Small and Micro-Entities



Shashwat Tulsian

I am a Qualified Chartered Accountant, Lawyer and Company Secretary. As a result, I have a unique ability to manage multi-disciplinary projects and to navigate complex challenges. I have helped work on more than 5000 such projects for multinationals over the last few years.



Nisha Kulthia

I am a Qualified Chartered Accountant, Company Secretary. I like to think strategically and i'm driven to help businesses solving there financial and taxation needs. I also like to add value to research on economy and industry Analysis and its impact on business.

CONTENTS

- Summary
- Overview UK Financial Reporting Regime
- Small Entities 1A of FRS 102
- Micro-entities FRS 105
- Choosing the most appropriate reporting framework

Key facts

- With effect from January 2016, the FRSSE will no longer apply and a new UK GAAP for small and micro-entities shall be in effect.
 - Amendments mandatory for periods commencing on or after 1 January 2016.
 - Early adoption available for periods commencing on or after 1 January 2015.
 - Introduces a new Section 1A to FRS 102 that reduces full FRS 102 disclosures for small entities.
 - Makes other consequential amendments to FRS 102 arising from changes to company law.
 - Introduces new small entity transition exemptions
-

SUMMARY

On 16 July 2015, the Financial Reporting Council (FRC) issued the new UK GAAP for small and micro-entities. This marked the end of several years' work by the FRC in introducing an international-based financial reporting framework for companies across the UK and Republic of Ireland.

The changes outlined in this commentary are applicable for periods commencing on or after 1 January 2016:

- Remove FRSSE 2015 and move small entities into FRS 102
- Remove FRSSE 2015 and introduce FRS 105 The Financial

Reporting Standard applicable to the Micro-entities Regime.

FRS 102 is a single reporting standard of 350 pages, which replaces all extant FRSs, SSAPs and UITF Abstracts. It is based on the IFRS for SMEs.

FRS 100& 101 issued
2012

FRS 102
2013

FRS 103 issued
2014

effective from 1
January 2015

1A of FRS & FRS 105
(FRSSE withdrawn)
2016

Overview UK Financial Reporting Regime

Geographical applicability

The UK's Financial Reporting Council (FRC) has published five standards which together form the basis of the new UK regime. The following suite of standards will apply to all companies in the UK and Republic of Ireland (although FRS 105 cannot be used in the Republic of Ireland as the legislation has not yet been enacted):

FRS	UK	Ireland
FRS 102	Applicable	Applicable
FRS 105	Applicable	Not applicable

EU-adopted IFRS

- ▶ Mandatory for listed and AIM companies
- ▶ Can be voluntarily adopted by most other companies

FRS 101 Reduced Disclosure Framework

- ▶ Qualifying entities who otherwise adopt the recognition, measurement and disclosure requirements of EU-endorsed IFRS

FRS 102 The Financial Reporting Standard

- ▶ For all entities **not** applying
 - EU-adopted IFRS,
 - FRS 101(Reduced Disclosure Framework) or
 - 1A of FRS 102 (Small Entities)
 - FRS 105 (The Financial Reporting Standard applicable to the Micro-entities Regime)
 - FRS 103 (Insurance Contracts)

1A Small Entities of FRS 102 (applicable from 1 January 2016)

- ▶ It will be applied by all entities which are neither required nor elect to apply:
 - EU-adopted IFRS
 - FRS 101 Reduced Disclosure Framework or
 - The FRSSSE (for periods beginning before 1 January 2016)
 - FRS 105 ,applicable to the Micro-entities Regime

FRS 103 (*Insurance Contracts*)

FRS 103 is applied by companies that are applying FRS 102 and:
Issue insurance (and reinsurance) contracts
Hold reinsurance contracts
Issue financial instruments with a discretionary participation feature.

FRS 104 Interim Financial Reporting

As issued by the Financial Reporting Council (FRC) in March 2015.

FRS 105 (applicable from 1 January 2016)

- ▶ Available to micro-entities as defined by CA 2006



Small Entities- 1A of FRS 102

A small entity is defined as a company that qualifies as small under sections 382 to 384 of the Companies Act 2006 (or would be had it been incorporated under company law) or an LLP qualifying as small under the LLP regulations.

The relevant size thresholds for a company, for example, would be:

Company size thresholds w.e.f 1 January, 2016
Turnover £10.2m
Balance sheet total £5.1m
Average employees 50

These limits would also apply where a company chooses to early adopt the amendments to FRS 102

With effect from 1 January 2016 (or earlier, if adopted), Section 1A Small Entities may be applied by:

- (a) A company meeting the definition of a small company that is not excluded from the small companies regime
- (b) An LLP meeting the definition of small that is not excluded from the small LLPs regime*
- (c) Any other entity that would have met the definition of a small company if it were an incorporated company*.

*To the extent that the requirements of Section 1A do not conflict with any statutory framework under which such entities report, for example, from a SORP making body.

Small companies have a choice of three standards which they can apply in the preparation of their financial statements:

- ▶ FRS 105
- ▶ FRS 102 with reduced disclosures
- ▶ Full FRS 102

There are differences between FRS 101 and FRS 102 with reduced disclosures. FRS 101 is based on the requirements in EU-adopted IFRS; whilst the reduced disclosures for subsidiaries and parent companies in FRS 102 are based on FRS 102 itself. It is to be noted that both disclosure regimes are optional. Charities are not eligible to apply FRS 101.

FRS 101	1A Small Entities of FRS 102
Based on the requirements in EU-adopted IFRS	Based on FRS 102 itself

How do small entity transition exemptions work?

Let's assume a small company with a 31 December 2016 year end is preparing its first set of accounts under FRS 102 Section 1A.

The date of transition for this company is 1 January 2015 (which has already passed). Where taking advantage of the additional transition exemptions for small entities it is not required to, for example, restate for the fair value of financial instruments or adjust the treatment of financing transactions involving related parties at 1 January 2015. It is, however, required to introduce the 1 January 2016 value of the instrument into the accounts in the year to 31 December 2016 as an adjustment to the opening equity position.

As such, this company will still need information in these areas as at 1 January 2016.

Appendices to help preparers

The FRC have also included four appendices to Section 1A. The idea of these appendices is to help preparers in understanding exactly what is required for financial statements of small companies under FRS 102. The FRC recognise that all this is new to a lot of accountants and have therefore included the appendices to help to try and alleviate any difficulties or confusion when applying the requirements.

The appendices are as follows:

- ▶ Appendix A: Guidance on adapting the balance sheet formats
- ▶ Appendix B: Guidance on adapting the profit and loss account formats
- ▶ Appendix C: Disclosure requirements for small entities

Financial statements under FRS 102

Primary statements

- ▶ Statement of financial position
- ▶ Statement of comprehensive income or income statement
- ▶ Statement of changes in equity
- ▶ Statement of cash flows

Notes to the accounts

- ▶ Accounting policy changes
- ▶ Statement of compliance
- ▶ Transition note

FRS 105- micro-entities

FRS 105 has been developed around the legal framework and from the requirements in FRS 102. However, the micro-entities regime has not been favourably welcomed by a lot of accountants and commentators due to the fact that the disclosure requirements are heavily condensed in comparison to the FRSSE (effective January 2015) requirements and because of the '**deeming provisions**' within the legislation.

Deeming provisions say that where micro-entity financial statements are prepared in accordance with the legislation they are 'presumed' to give a true and fair view.

Who may apply the standard?

FRS 105 is applicable to entities that are eligible for, and choose to apply, the micro-entities regime.

Eligibility criteria

An entity meets the size criteria for a micro-entity if it does not exceed at least two of the following three thresholds in relation to a financial year:

- ▶ Turnover: £632,000 (adjusted for periods longer or shorter than 12 months)
- ▶ Balance sheet: £316,000, and
- ▶ Average number of employees: 10

Note: The criteria must be met in two consecutive years for an entity to qualify as a micro-entity and must be exceeded in two consecutive years to cease to qualify.

Exclusion:

- ▶ Any entity that is excluded from the small companies regime (or small LLPs regime) may not apply FRS 105
- ▶ Charitable companies, investment undertakings, financial institutions, subsidiaries that are fully consolidated in group accounts and parent companies that prepare group accounts.

Choosing the most appropriate reporting framework

“FRC are keen to emphasise that directors and Auditors carefully consider the most appropriate regime.”

Understandably, where a company has to report under FRS 102 with reduced disclosures, the regime is more comprehensive than FRS 105 (the idea being the levels of complexity and disclosure increase the further up the suite of standards you go).

- ▶ FRS 105 may be appropriate to most micro-entities, but in some cases the standard may not be the best framework to report under; for example where the client wishes to continue to report investment property at fair value – in this case they will need to report under FRS 102 for small entities as a minimum because fair values or revaluations cannot be used in FRS 105.
- ▶ If the client can apply a particular standard (for example a company whose financial statements are included in group accounts) cannot apply the micro-entities regime.
- ▶ **The needs of users** –Banks may view the substantially reduced disclosure levels in micro-entity accounts **unfavourably** if the micro-entity needs additional sources of finance and hence the accountant may need to prepare additional, non-statutory information.
- ▶ A company in the Republic of Ireland may not yet apply FRS 105 because it depends if the Irish Department of Jobs, Enterprise and Innovation enact the micro-entities legislation and hence they must apply FRS 102 with reduced disclosures as a minimum.
- ▶ A company in the Republic of Ireland may not yet apply FRS 105 because it depends if the Irish Department of Jobs, Enterprise and Innovation enact the micro-entities legislation and hence they must apply FRS 102 with reduced disclosures as a minimum.

According to BIS this will result in an additional 11,000 medium-sized companies being eligible to be re-classified as small and hence being able to take advantage of the new small companies' regime. This is one of the reasons why BIS was keen to include an early-adoption clause in the revised small companies' legislation.



References

<http://frs102.net/wp-content/uploads/2014/02/Transition-Checklist.pdf>
<http://www.icaew.com/en/library/subject-gateways/accounting-standards/new-uk-gaap/frs-102>
<http://www.iasplus.com/en-gb/standards/uk-gaap>
library@icaew.com
<http://www.uktrainingworldwide.com/>
<http://www.accountingweb.co.uk/business/financial-reporting/new-uk-gaap-for-small-and-micro-entities-released>
<http://www.icaew.com/en/technical/financial-reporting/uk-gaap/uk-gaap-standards/financial-reporting-standard-for-smaller-entities-frsse>
https://docs.google.com/document/d/1r7T6jt-d_KOUIRqjxm9L9kABbkpmhspufDKbSZZ4UY8/edit
<http://www.icaew.com/en/technical/financial-reporting/new-uk-gaap>

About RTC

R.Tulsian and Co. LLP is a full services multinational chartered accountancy and legal services firm having its head quarters in India. We have a multinational presence with clients in USA, Europe and Australia. We also have a strong PAN India presence in important strategic locations including Kolkata, New Delhi, Bangalore, Mumbai and Gujarat, North East India, among other places.

Our practice is more than 60 years old and our services include Tax advisory and compliance including Direct and Indirect taxation, International transactions including Cross Border Transactions and Structuring, Accounting, Bookkeeping, Payroll, Transaction Advisory services, Auditing, Corporate Laws including Companies Act and other allied laws, consulting with FEMA laws and RBI laws, Due Diligence, Risk Management and Mitigation, Outsourcing services and Business development.

For more information about RTC service offerings, visit www.rtulsian.com

Our Offices

Kolkata Office:

7/1C, Jatindra Mohan Avenue,
1st Floor, Kolkata – 700006
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com
tapas@rtulsian.com

Delhi Office:

C-10 Varan Apartments, Rohini, Sector 9
New Delhi-110085
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com
tapas@rtulsian.com

Mumbai Office:

302 Tarachand Apartment, Gomes Street, Station Road, Bhayander (West)- 400101
Phone No: 033 – 2543 2271 / 2270
Mobile No: +91-9830452385
email: shashwat@rtulsian.com
rohit@rtulsian.com