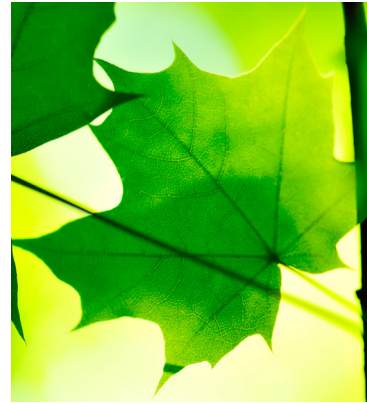


Need to know

Changes to accounting standards as a result of implementation of the EU Accounting Directive



In a nutshell

- The FRC has issued changes to the existing UK financial reporting framework resulting from the UK implementation of the EU Accounting Directive, including:
 - FRS 105, a new financial reporting standard for micro-entities;
 - amendments to FRSs 100, 101 and 102 to introduce a new regime for small companies to replace the FRSSE and to make other necessary amendments as required by the changes in UK company law.
- FRSs 101 and 102 now include flexibility to permit the use of formats based on IAS 1 for the balance sheet and profit and loss account.
- The new reporting standard and amendments will be effective for accounting periods beginning on or after 1 January 2016 with earlier application permitted, subject to some restrictions.

Background

The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980) (the 2015 Regulations) have come into force and implement the EU Accounting Directive in the UK.

In response to this, the FRC has published amendments to:

- FRS 100 *Application of Financial Reporting Requirements*;
- FRS 101 *Reduced Disclosure Framework*; and
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

It has also published FRS 105 *The Financial Reporting Standard applicable to the Micro-entities regime*. These largely implement the proposals set out in the three Financial Reporting Exposure Drafts (FREDs) which the FRC consulted on earlier this year, but some changes have been made in the light of comments received.

What amendments have been made to FRSs 100, 101 and 102?

FRS 100 and FRS 101

Minor amendments have been made to these standards to reflect the revised framework of accounting standards and also to maintain consistency with company law.

FRS 100 has been amended to reflect the withdrawal of the FRSSE and the introduction of FRS 105.

FRS 101 has been amended to maintain consistency between FRS 101 and UK company law following the implementation of the EU Accounting Directive. In addition the IASB had issued a number of amendments to EU-adopted IFRS since the 2013/14 review of FRS 101. The principal amendments made are as follows:

- a company transitioning to FRS 101 for the first time and applying IFRS 1 *First-time adoption of International Financial Reporting Standards*, will no longer be required to present an opening balance sheet at the date of transition (although a reconciliation of equity is still required); and
- there is now greater flexibility in the format of the profit and loss account and balance sheet, such that entities can choose to adopt a presentation as if preparing 'IAS accounts'.

FRS 102

This standard has been amended to include a new section, Section 1A *Small Entities*, setting out the presentation and disclosure requirements for small entities. This, taken together with the recognition and measurement requirements of FRS 102, replaces the FRSSE. In response to comments received on the FREDs, the new Section 1A has been substantially restructured from the proposals in the FREDs to make it easier to understand.

The eligibility criteria for a small company have been amended and the thresholds, of which two must still be met, were increased by the 2015 Regulations – the new limits are shown in the table below:

	Old criteria	New criteria
Total assets	≤£3.26m	≤£5.1m
Turnover	≤£6.5m	≤£10.2m
Number of employees	≤50	≤50

Observation

Many companies will benefit from the increase in the thresholds and eligibility criteria and qualify for the new small companies regime. Those entities that previously followed the FRSSE and do not qualify as micro-entities may find some of the recognition and measurement requirements of FRS 102 challenging, e.g. financial instruments and share-based payments. However, they will benefit from reduced disclosure. The flexibility allowing use of IAS 1 formats for the balance sheet and profit and loss account as detailed for FRS 101 adoptors above, has been extended to financial statements prepared under FRS 102.

Which companies can apply FRS 105?

FRS 105 is a new financial reporting standard for those companies that meet the criteria of a 'micro-entity' as defined in section 384A of the Companies Act 2006.

	Threshold
Turnover	≤£632k
Balance sheet	≤£316k
Employees	≤10

A company will qualify as a micro-entity for accounting purposes if it meets two of the above criteria although other eligibility criteria must also be considered, e.g. financial institutions and charities will not qualify.

FRS 105 is based on the recognition and measurement requirements of FRS 102 (as revised for small companies in the amendments issued concurrently with FRS 105). The standard is structured on a section-by-section basis consistent with FRS 102 but there are considerable simplifications to the accounting treatments and disclosure requirements for entities reporting under FRS 105. The main simplifications available under FRS 105 are:

- to remove all disclosure requirements other than those required by law, although a micro-entity is not prohibited from providing additional voluntary disclosures and is encouraged to give consideration to these; and
- to exempt micro-entities from having to account for some complex transactions, e.g. equity-settled share-based payments and deferred tax.

Micro-entities are *not permitted* to use fair value accounting for either investment properties, which under FRS 105 must be measured at cost subject to depreciation/impairment, or financial instruments, which must be measured at cost less impairment or amortised cost.

When do these changes take effect?

Change/amendment	Details	Effective date	Early application permitted
Amendments to FRS 101	Removal of requirement for an opening balance sheet and minor amendments to related party disclosures	Periods beginning on/after 1 January 2015	✓
Amendments to FRS 100/101/102	Amendments for consistency with company law	Periods beginning on/after 1 January 2016	✓*
FRS 105	Financial reporting standard for micro-entities	Periods beginning on/after 1 January 2016	✓
The 2015 Regulations	Changes to company law, including qualification as a small company	Periods beginning on/after 1 January 2016	✓**

* The amendments to FRS 100/101/102 can be applied for periods beginning on/after 1 January 2015. If those amendments are adopted early, the 2015 Regulations must be adopted early, and vice versa.

** Can be applied for periods beginning on or after 1 January 2015, with the exception of the exemption from audit.

The FRSSE is superseded if the amendments are applied early and is withdrawn for accounting periods beginning on or after 1 January 2016.

The changes made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 do not apply to LLPs although the Government is expected to make similar changes to the law on LLPs in due course. Early adoption of the amended accounting standards by LLPs is possible but care is needed because there are currently some conflicts with the law. LLPs cannot currently adopt the micro-entities regime and therefore cannot apply FRS 105.

Observations

Early adoption could be beneficial to:

- entities currently applying the FRSSE who wish to make use of the simplified disclosures in the new small companies regime;
- entities now qualifying as small under the increased thresholds since this would avoid having to move to full FRS 102 for one year and then the new small companies regime in section 1A of FRS 102 the following year;
- entities that are transitioning to FRS 101; and
- entities now qualifying for the simplified micro-entity regime.

Further information

If you have any questions about the subjects raised in this publication, please speak to your usual Deloitte contact. More information on the proposed changes to the existing UK financial reporting framework including Need to Knows published in September 2014 and February 2015, as well as other UK accounting, reporting and corporate governance news and publications, can be found at www.ukaccountingplus.co.uk

The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 can be accessed at: <http://www.legislation.gov.uk/ukxi/2015/980/contents/made>

The final standards published by the FRC can be found at: www.frc.org.uk

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