
SCR Reporting

Bulletin 2015 / 2

An apology

In our last bulletin I promised that the small company module would be available in September / October following the issue of the amendments to FRS 102 which primarily relate to small companies. Unfortunately there is still a lot of confusion as to the practical application of this standard and the related legislation, in particular in relation to the content of abridged accounts, and the degree to which additional information is necessary to give a true and fair view.

Rather than issue an incomplete module, we have held back and the planned publication date is now early January. Given that the first possible implementation date is years ended 31 December 2015, and that many of you will be up to your eyes in tax returns until early February, we hope that this will not create too many problems.

Talking to software suppliers, it is unlikely that their updated small company templates will be available very early in the new year, although we would expect them to be available by the end of the first quarter, plenty of time to meet the filing deadlines.

In the meantime we include a set of small company accounts initially drafted under FRSSE 2008, marked up to highlight the key presentational and disclosure issues, and which, within the accounting policies sections, explain the major changes.

We also include a checklist which summarises some of the key issues and on which the final checklist will be based for anyone who is desperate to start work.

We believe that this will help those of you seeking to identify the major implications of the changes. As noted in the foreword these are not model accounts. Nor are they complete. They highlight the key issues in a typical small company.

We take this opportunity to wish all our subscribers a happy Christmas and all the best for a prosperous and healthy New Year.

Bill Telford

Editor

1 December 2015

Should my small company client early adopt FRS 102 for small entities?

In our last bulletin we outlined the key changes in company law and accounting standards, including an explanation of the new abridged accounts regime and the abolition of abbreviated accounts. We also explained that the mandatory adoption date for FRS 102 is periods commencing on or after 1 January 2015, and that for small companies is periods commencing on or after 1 January 2016. Small companies can adopt FRS 102 Section 1A for periods commencing on or after 1 January 2015. If they do not they must transition from FRSSE 2008 to FRSSE 2015 for periods commencing on or after 1 January 2015.

As I have been delivering training around the country and in discussions with other trainers and others such as software suppliers, there is evidence that many practitioners are unprepared for the change, and, in particular, it appears that firms are tending to assume that clients should not adopt FRS 102 Section 1A until the last minute.

Our view is that for many small entities early adoption is the sensible choice.

Does the burden of FRS 102 outweigh benefits of company law changes?

There are two issues to consider before making the decision:

- (a) Does client wish to take advantage of the company law changes, including changes in eligibility and simplified disclosures including the ability to prepare abridged accounts?
- (b) Does transition to FRS 102 introduce any major changes which would suggest making the transition at the last possible date?

The benefits of changes in company law

In the previous bulletin, we outlined three changes in company law, which potentially encourage early adoption:

- (a) Changes in eligibility;
- (b) Reduction in disclosures for all small companies;
- (c) Ability to prepare abridged accounts for shareholders, which in turn, reduces information produced for HMRC and for filing at Companies House.

There is a fourth change, which many clients will find attractive, the reduction in the disclosure requirements in respect of related parties.

Related parties under revised company law

The requirements for disclosure of related party transactions under the Regulations are less stringent than under FRSSE or FRS 102.

There is no requirement to disclose the name of the controlling party, or ultimate controlling party under the new small company regulations, unless the entity is a subsidiary, in which case disclosure of the name and registered office (or principal place of business if the parent is unincorporated) of the parent is required.

S 66 of the Regulations includes the following “ Particulars may be given of transactions which the company has entered into with related parties and must be given if such transactions are material and have not been concluded under normal market conditions with:

- (a) Owners holding a participating interest;
- (b) Companies in which the company has a participating interest; and
- (c) The company’s directors”.

Note the significant items no longer requiring disclosure:

- (a) Since a participating interest is 20% of the shares, this means that transactions with individuals holding < 20% of the shares are not disclosable.
- (b) Neither are transactions with members of the close family of the directors.
- (c) Nor are transactions between companies under common control!

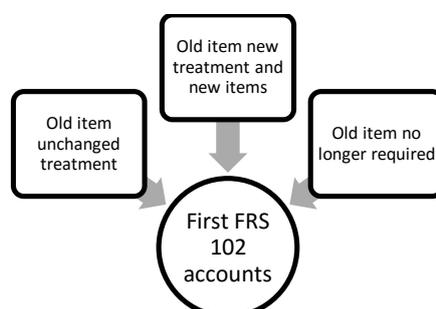
This is even before discussions as to whether transactions are not disclosable because they are concluded under normal market conditions!!

Given that many clients resent including this information, most will welcome this reduction in information, and some will be keen to use the exemption at the earliest possible moment, and therefore be happy to early adopt.

Note that under the new legislation this note will be filed at Companies House since it is now required by company law. Previously, when required by FRSSE, the related parties note was not required in abbreviated accounts. Given the much reduced disclosures, clients may feel relaxed about this. If there are disclosures clients would prefer are not disclosed in this way, they will probably prefer not to early adopt!

The implications of moving from FRSSE 2008 to FRS 102 Section 1A

The treatment of items under new UK GAAP can be summarised in the following diagram.



It is important to appreciate that for many small business the majority of items within the financial statements will not change, and will therefore fall into the first category.

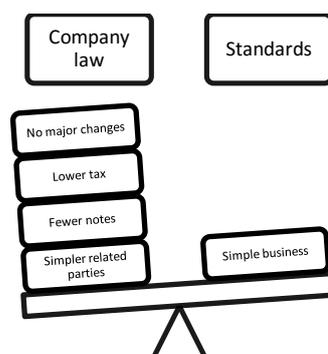
- (a) Most companies will continue to recognise income as under old GAAP – on delivery of goods or provision of services. Those which may need to change income recognition policies are those providing services on a contingent fee basis and those which make sales on deferred terms.
- (b) Stock, referred to as inventories in FRS 102 is included at the lower of cost and estimated selling price less costs to complete and sell. This is the same as the lower of cost and net realisable value basis of FRSSE 2008 and SSAP 9.
- (c) Entities continue to have the option to include fixed assets on a cost or revaluation basis. The cost of a fixed asset, its useful life and depreciation policy are unlikely to be different under FRS 102 than they have been under FRSSE. There may be some differences in residual value but often there will not be. If property is included at valuation, the basis may change to an open market value, whereas FRSSE (and FRS 15) would have been on an existing use basis.
- (d) Most debtors and creditors will not change, although there may be changes for loans not at market rates, and there is a requirement to include derivative financial statements such as interest rate swaps and foreign currency contracts at fair value.

Even when the accounting treatments do change, for example changes in the treatment of lease incentives and the requirement to include holiday pay they are often tax advantageous.

Given the above, for many companies there is no disincentive within FRS 102 Section 1A to early adoption.

Favouring early adoption

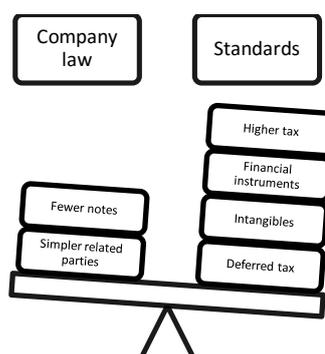
For many companies we would suggest the analysis would give the following answer:



Tending to adoption at latest possible

Where the entity has complex financial instruments and other difficult issues it may be sensible to delay adoption until the latest possible date. This would particularly be the case where new UK GAAP results in a higher taxable profit.

This can be illustrated as follows:



We would advise you that the decision should be made on an individual basis, client by client, rather than having a blanket early adopt or not policy

The choice for upcoming year ends

Some people seem to struggle with identifying which is the first mandatory year under the new Regulations. Hopefully these tables will help.

Non-small company

| | 2015 | 2016 et sub | 2015 |
|--------------|-------------|-------------|------------|
| 31 January | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 28 February | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 March | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 30 April | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 May | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 30 June | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 July | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 August | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 30 September | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 October | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 30 November | Old UK GAAP | FRS 102 | FRSSE 2008 |
| 31 December | FRS 102 | FRS 102 | FRSSE 2015 |

Small company not a micro-company

| | Small company | | |
|--------------|----------------------|----------------------|------------|
| | 2015 | 2016 | 2017 |
| 31 January | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 28 February | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 March | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 30 April | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 May | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 30 June | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 July | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 August | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 30 September | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 October | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 30 November | FRSSE 2008 | FRSSE 15 / FRS 1021A | FRS 102 1A |
| 31 December | FRSSE 15 / FRS 1021A | FRS 102 1A | FRS 102 1A |

It is also important to remember that it is periods commencing on or after 1 January, and therefore care needs to be taken with short periods. For example accounts for the nine months to 31 October 2015 commenced on 1 February 2015 and are therefore required to be under FRS 102 or FRSSE 2015.

Limited liability partnerships

The government issued a consultation document proposing to harmonise the accounting regulations for LLPs with those for companies. The consultation document can be found at <http://links.govdelivery.com/track?type=click&enid=ZWFzPTEmbWFpbGluZ2lkPTlwMTUxMTIwLjUxNzIxMjMxMjM1c3NhZ2VpZD1NREItUFJELUJVTc0yMDE1MTEyMC41MTcyMTIzMSZkYXRhYmFzZWlkPTUwMDEmc2VyaWFsPTE2OTMyMDE5JmVtYWlsaWQ9cGVubnkuc3VraHJhakB3b2x0ZXJza2x1d2VyLmNvLnVrJnVzZXJpZD1wZW5ueS5zdWtocmFqQHdvdHRIcnNrbHV3ZXluY28udWsmZmw9JmV4dHJhPU11bHRpdmFyaWFOZUlKPSYmJg==&&101&&&https://www.gov.uk/government/consultations/limited-liability-partnerships-llps-and-qualifying-partnerships-deregulatory-changes>

In summary, the proposal is to bring the size and other eligibility criteria into line with those of companies, and have the same disclosure requirements for both incorporated bodies. This includes removing the option to file abbreviated accounts and allowing the preparation of abridged accounts.

Interestingly, the consultation proposes introducing a micro-entity option for LLPs. LLPs were specifically excluded from the micro-regime when it was introduced in 2013. If the proposal goes ahead, FRC will need to revise FRS 105, which as currently drafted only applies to companies.

The one point which is currently unclear is the effective date, which is currently scheduled to be periods commencing on or after 1 January 2016. The consultative document does invite respondents to comment on whether LLPs should be able to adopt the new regulations for periods commencing on or after 1 January 2015.

Publications and subscriptions

SCR Reporting Bulletin is a quarterly bulletin dealing with accounting and auditing matters affecting the small company. It is available as part of the subscription for users of SCR Procedures (previously known as Small Company Reporting Procedures Manual) or SCR Reporting (previously known as Small Company Reporting). It is also available as a separate subscription.

With effect from 1 July 2015 the two manuals, plus the sister publication SCR Charities, are published in a members' section of the website www.smallcompanyreporting.co.uk and are available to download in Word or PDF format. When changes are made, they are advised by e-mail, on the website and in the next Bulletin.

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Technical enquiries

Although Small Company Reporting Limited does not have the resources to provide a *hotline* for readers, we respond to technical enquiries where possible. Matters of general interest form the basis of **points arising** in the quarterly bulletin. Enquiries in relation to any technical items in this Bulletin, or from use of the manuals should be addressed to Bill Telford, Technical Director, Small Company Reporting Limited, Albion House, Albion Street, Hull, HU1 3TE or by e-mail to bill@smallcompanyreporting.co.uk

Update instructions

There are no changes required to existing manuals. As noted above SCR Reporting can continue to be used for periods commencing before 1 January 2015. They will be superseded by the new modules for periods commencing on or after 1 January 2016. If you have not already subscribed, or renewed your subscription why not do so now. The current prices are £100 + VAT for each of the three manuals separately, or £229 + VAT for all three.