Return to Index

small company reporting

Vol. 22.1 spring / summer 2013

A quarterly bulletin dealing with Accounting and Auditing matters affecting the smaller company

ISSN 0 968 8897

www.smallcompanyreporting.co.uk

starting a new chapter

This edition of the bulletin appear after a hiatus of several months due to my recent illness – so I should begin by thanking all those who sent me their good wishes. I am pleased to be able to report that I have been successfully fitted with a heart pacemaker which will correct the heart block from which I was suffering. I can also report that the rheumatoid arthritis, with which I was diagnosed last year, is in remission and, at present, I hardly know that I have it. I am even more pleased to be able to report that it appears that I do not have heart failure, kidney disease or asthma, for all of which I was under investigation and / or receiving treatment. It is not clear why I displayed the symptoms that I did but I have been discharged by the heart and kidney consultant and rarely felt better.

However, down to business. This edition of the bulletin and the accompanying update marks the start of a new chapter in the story of small company reporting in a number of ways departure. On page 4 is the first article by Steve Collings. Steve will already be known to many subscribers from his contributions to *accountingweb* and lectures for various training organisations. Steve is unusual in having a distinguished record as an author on accountancy and auditing, whilst having a small firm background. We anticipate that this will be the beginning of long and fruitful relationship between Steve and small company reporting. You can find out more about him at: http://www.stevecollings.co.uk/.

On a technical level this update represents the first step towards updating the manual to cover the change in UK GAAP away from SSAPs and FRSs to a single statement based on the IFS for SMEs. In this edition we are adding a new part 7 which summarises the contents of FRS 102 and compares its provisions to previous practice and those in the FRSSE. It fills the slot vacated by the summary on auditing statements, which was removed in the autumn of 2011. For the time being we will retain the summary of the FRSs and SSAPs in part 6 – but this will become a summary of the FRSSE when these statements become redundant in 2016, and be updated to reflect the planned changes to the FRSSE.

In the autumn update, to be sent out at the end of October, we will add a new version of the checklist Part 2 for Medium-sized and Large companies based on FRS 102 and in the winter update we will add a new supplementary checklist (Part 3). Both of these versions will be held on Part 10 – Transitional until they come fully into force for accounts of period commencing on or after 1 January 2015. At this point the old Parts 2 and 3 will be removed. At some stage it we will also revise the specimen accounts to reflect the new requirements.

At first sight it might seem that all of this is still pretty remote and can be safely ignored until 2016. However, in some cases it will be necessary to restate figures from December 2013 accounts as the opening figures for the comparatives appearing in December 2015 accounts. In many cases the best time to do this will be when preparing the December 2013 accounts and a year later it will be necessary to prepare figures for both profit and loss account and balance sheet, which will form the corresponding period for the first accounts under FRS 102.

For many firms the most sensible course of action will be to let the accounting software take the strain. However, firms are still responsible for getting the end product right, and teething troubles are to be expected. We expect to include several articles on FRS 102 in the next few bulletins, starting with the current one. Based on our experience, dating back to 1992, we fully expect unanticipated issues to arise as people get to grips with the new rules.

Roger Bryant

10 things you need to know about frs 102

1. FRS 102 will govern the content of all UK accounts except where using the FRSSE or IAS. For periods commencing on or after 1 January 2015 true and fair accounts will have to comply with FRS 102 unless the entity can apply the FRSSE and chooses to do so or required to apply IAS or elects to do so voluntarily. All SSAPs, FRSs and practically all UITF statements are withdrawn from that date.

2. **FRS 102 preserves many current features of UK accounting.** FRS 102 is based on the IFRS for SMEs, itself distilled from international standards but the FRC has amended it to preserve several aspects of current UK practice. In addition, in many areas international practice is identical to UK practice and in some areas, such as provisions, the international and UK standards were developed at the same time and are almost the same. FRS 102 is not the first solution, but represents plan C in replacing UK GGAP. Plan A, from 2004, was to replace all UK standards with their international equivalent over a period of 5-6 years. This was abandoned in 2009 in favour plan B with a three tier solution, in which non-small companies would follow the IFRS for SMEs. However, what has emerged is not a requirement to apply the IFRS, but an FRS requiring Companies Act accounts, which retains current UK practice in many areas where it conflicted with the IFRS. In addition in some areas where there are problems, the FRC has replaced the content from the IFRS for SMEs with material from full IASs.

3. FRS 102 is not very user friendly. FRS 102 is based indirectly on extracts from international standards where key principles are not distinguished from detailed aspects and standards generally contain a statement of the basic requirements, followed by statements on what is not allowed and statements on specialised aspects; all mandatory. In contrast, existing SSAPs and FRSs either have standard and explanatory sections or, more recently, bold paragraphs for the standards. The Pensions SORP won a "Crystal Award" for presentation – there is no danger of FRS 102 emulating it , but the FRC are not really to blame.

4. **Accounts produced under FRS 102 will look very similar to those produced now.** At first sight this might seem surprising, because, the FRS refers to a statement of position, rather than balance sheet, and an income statement, rather than a profit and loss account. It also requires a comprehensive statement of income and statement of equity, which replace the STRGL and reconciliation of shareholders' funds. In many cases it will be possible to show a single statement of income and retained earnings. There also has to be a cash flow statement, with no exemption for a small company using the FRS on a voluntary basis or for 90% subsidiaries. However, the accounts must be Companies Act individual accounts or group accounts under sections 396 or 404 of the 2006 Act, so must comply with the formats in *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410). Indeed the FRS makes it a requirement for all entities applying the FRS to use the formats, even if there is no legal requirement to do so, thus extending the provisions to non-companies. FRS 102 explains that "an entity may use titles for the financial statements other than those used in this FRS as long as they are not misleading". So it is permissible to retain the titles balance sheet and profit and loss account. Indeed, there are at least two very good reason for doing so. Despite the aspirations of the standard setters over the years a balance sheet rarely shows an accurate statement of position in an economic sense – often key intangible assets are omitted and tangible assets are often shown at figures bearing very little relationship to today's values. Secondly, sections 396 and 404 say the accounts "must comprise a profit and loss account and balance sheet". This does not seem to permit a statement called something else. In every other respect, the headings in the formats cannot be amended, so it would be surprising if this did not apply to the title. When it comes to the detailed headings the scope to amend the formats is limited to Arabic number items and then only where the special nature of the business requires it. So it appears that it is necessary to refer to stock, rather than inventories and land and buildings rather than property, and seems disingenuous to amend it under the "special nature" clause.

5. The concepts and principles underlying the standards are the same as before. The basic ideas underpinning the rules are basically are unchanged. The material in FRS 102 and the ASB statement of principles come from the same source. So ideas such as materiality, consistency, accruals and substance over form all figure in both. As with ASB statements profit and loss is based on changes in the amount and value of assets and liabilities – measured in terms of expected inflows and outflows of monetary resources, rather than matching. Whilst prudence gets a mention, it no longer includes making provision against liabilities and losses which are expected to arise, but have not yet done so.

6. Most of the figures in the accounts will be the same as before. This is for the very good reason that the requirements of FRS 102 are generally the same as existing UK standards for the main items such as fixed assets, stocks, trade debtors and creditors, accrued items, bank balances and even revenue recognition, pensions and current tax. Differences relate to less common areas, such as investment properties, some types of intangible assets and financial instruments. Moreover, the FRC has replaced some provisions with current UK requirements. Capitalisation of development expenditure is allowed on the same basis as before. Land and buildings can be revalued and interest can be included in the cost of fixed assets. In each case these practices are not allowed under the IFRS for SMEs, but the relevant provisions have been replaced by material based on current UK requirements. FRS 102 does not provide for separate disclosure of the "non-operating exceptionals" required by FRS 20.3 but does require additional line items, to be included in the income statements when relevant to understanding of financial performance. It makes clear that these are not extraordinary but omits the prohibition found in the IFRS for SMEs.

6. The main changes will affect companies with less common items in their accounts. Investment properties must still be shown at market value but changes are to be passed through the profit and loss account, rather than taken to the revaluation reserve. However, FRS 102 allows investment properties to be shown as "ordinary" land and buildings where the fair value cannot be measured reliably without undue cost or effort on an on-going basis. This may lead a lot of companies to reclassify investment properties on transition and avoid the need for frequent valuations. This may be particularly attractive because FRS 102 requires a deferred tax provision to be made in respect of revaluation gains – even where there is no intention to dispose of the property, a rule that applies to all property revaluations. Goodwill must still be written off over its useful economic life but can no longer be judged to have an indefinite life and be subject only to impairment reviews. Instead where the life cannot be determined, goodwill must be written off over 5 years or less. When impairment of a cash generating unit is identified, impairment losses must be charged against goodwill and then all assets pro rata, rather than against goodwill and intangibles before the rest. Associates and joint ventures may be shown under the cost model or under the equity method, although for joint ventures the gross equity method disappears. However, the rules now apply to both consolidated and individual company accounts. The distinction between finance leases and operating leases is still based on risk and reward but there is no 90% rule in FRS 102. Companies with foreign currency transactions must use the actual or average rate to translate the profit and loss account, even where the "closing rate" method is used to translate an investment, and cannot use the rate from a forward contract to translate a debtor or creditor. Instead such items must be shown as financial instruments, under the most complicated section of the standard. Section 11 requires the cost or income arising from loans and investments producing a largely pre-determined income to be shown under the effective interest rate method, with the balance sheet value determined by applying the difference between any payment and interest to the preceding years balance. This is consistent with current practice. However, the same section includes a complicated set of rules covering impairments, reversals and disposals. Section 12 covers investments without pre-determined returns, which must be shown at fair value, requiring equity investments to be shown at fair value, except where not publically traded and reliable fair values are no longer available, when they must be shown at cost less impairment. This section also includes rules on hedging. However, companies are not bound to follow the rules of FRS 102 and can, instead, use the recognition and measurement provisions of IAS 39 and the disclosure provisions of either FRS 102 or IFRS 9. Anyone considering seriously considering that solution for a non-major company probably requires some sort of sanity check!

7. Cash flow statements are required and different. FRS 102 requires almost all entities to produce a cash flow statement similar to that used in the UK before 1997, with sections dealing with operating activities, investing activities and financial activities. Gone are separate disclosure of equity dividends, returns on investment and servicing of finance and the separate analysis of capital expenditure and acquisitions, as well as those on management of liquid resources and financing. Cash equivalents make a re-appearance and the analysis of debt disappears. In other words most of the good bits of FRS 1 Mark II are lost and the worst features of Mark I return. However, as one firm recently told me: "We don't take any notice of them and it's done by the computer, anyway".

8. FRS 102 relaxes the disclosure requirements for related party transactions and requires less information than the FRSSE. FRS 102 includes the disclosure provisions on related party transactions from IAS 24, which have already been incorporated in FRS 8 and at the same time, FRS 100 inserts the definition in the FRSSE. However, no change has been made to paragraph 15.1 of the FRSSE, which requires disclosure of "the names of the transacting parties" for each material transaction. In contrast, FRS 102 only requires disclosure for "each of the (four) following categories" and "items of a similar nature may be (disclosed) in aggregate except where necessary … for an understanding of the effects.

9 For most entities the main new disclosures and requirements are as follows::

- Notes must include an explicit and unreserved statement of compliance with FRS 102.
- Management is to make an assessment of the entity's ability to continue as going concern and whether there is any indication that an asset may be impaired and if so the recoverable amount must be estimated.
- Disclosure is required in the financial statements of the legal form of entity, country of incorporation and address of registered office or principal place of

business (if different).

- Corrections of material errors and changes in accounting policies are to be presented as retrospective adjustments of prior periods
- Disclosure is required of significant judgements, in the process of applying accounting policies
- Details and carrying amounts must be shown for assets based on key assumptions concerning the future, and other sources of estimation uncertainty with a significant risk of material adjustment in the next financial year.
- Separate disclosure and treatment is required for land and buildings.
- Extensive disclosures are to be made about financial instruments.

10. There is no need to panic. The impact of FRS 102 on each practice will depend entirely on the number and type of clients it has. In many cases it will be relatively easy to extract the transition figures from the last sets of accounts before FRS 102 and leave it up to the software. In such cases, there is no real urgency in getting to grips with the detail. However, where things are more complicated, "the sooner the better" will apply and it may be important to begin assembling transition figures in preparing the accounts for periods ending from this December. A sensible strategy is to review both the main contents of FRS 102 and the client list in order to identify any clients where complications may arise and to prepare a plan for each one, so that key information is obtained at the best moment. After that, knowledge of the detail in FRS 102 will come with use and experience.

investment properties under frs 102

FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland brings with it many changes in accounting practice from existing UK GAAP and future articles will cover the majority of these changes. Companies that are required to adopt FRS 102 and have investment properties in their balance sheet will have to get to grips with some accounting and presentational changes. ***In this article Steve Collings explains the changes*****.**

It is to be noted that these revised accounting practices only apply to *investment* property. Section 16 *Investment Property* defines *investment property* as property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administration purposes; or
- sale in the ordinary course of business.

Currently, under SSAP 19 *Accounting for investment properties*, a reporting entity must carry their investment property in the balance sheet at fair (market) value with any changes in this value being reported in the statement of total recognised gains and losses via the revaluation reserve account.

Example

A company has an investment property in the balance sheet at 31 March 2012 with a carrying value of £100,000 and a related revaluation reserve surplus. On 31 March 2013, the building's valuation increased to £110,000.

In the 2013 financial statements, the company will:

DR investment property £10,000

CR revaluation reserve (£10,000)

Being fair value increase in investment property

Key points:

- **Gains and losses on investment properties to appear in profit and loss account**
- **Properties still shown at market value.**
- **IP revaluation reserve surpluses transferred to profit and loss account reserve on transition**

the new approach

FRS 102 requires a different accounting method to be adopted where investment properties are concerned. FRS 102 is primarily based on IFRS for SMEs, which was issued by the International Accounting Standards Board in 2009. IFRS for SMEs is, itself, a scaled-down version of full IFRS to ensure it is appropriate for its intended users (being small and medium-sized entities). Section 16 in FRS 102 essentially extinguishes the use of the revaluation reserve account and, as with IFRS for SMEs and IAS 40 *Investment Property*, requires all changes in the fair value of an investment property to be recognised in profit or loss. As a result, reporting entities will see a difference in reported profit (or loss) under Section 16 than would have otherwise been the case under SSAP 19 principles.

In the example, the company has credited the revaluation reserve account to bring the carrying value of the investment property up to its fair value at the balance sheet date. Under Section 16 provisions, the company will credit the profit and loss account and **not** a revaluation reserve account - conversely a company will debit the profit and loss account for any fair value losses.

Fair value gains and losses will have the effect of increasing and decreasing accounting profit and this follows the same treatment that IFRS for SMEs and IAS 40 require. The rationale behind such treatment is because investment property is not subjected to depreciation nor tested for impairment because it is carried in the balance sheet at market value at each reporting date.

the effect on distributable reserves

Practitioners must be made aware of the potential impact this will have on an entity's financial statements. Whilst the treatment of a fair value gain under Section 16 will increase accounting profit, the gains on such properties will *not* be distributable as a dividend to shareholders. This is because only 'realised' profits are eligible for distribution to shareholders in the form of a dividend. Fair value gains are not realised gains and therefore do not fall to be eligible for distribution as a dividend.

Some commentators have suggested that fair value movements in investment property be taken to an 'undistributable reserve' account within the equity section of the balance sheet so a reporting entity can keep a record of the level of undistributable profits. This alternative treatment was also suggested by the (now defunct) Accounting Standards Board in their staff guidance working papers during the consultation period. However, if this approach is adopted it will depart technically from the requirements of the new UK GAAP. It is envisaged that professional regulators will also disagree with taking fair value movements to equity on the grounds that paragraph 16.7 to FRS 102 is explicit: fair value gains and losses are recognised in profit or loss.

For reporting entities that have property carried in the balance sheet that fall under the scope of Section 17 *Property, Plant and Equipment* (equivalent to current FRS 15 *Tangible fixed assets*) this section still permits the use of the revaluation model and therefore revaluation gains and losses will still arise under this model. Such gains and losses will still be taken directly to a revaluation reserve account. However, gains in respect of such property, plant and equipment will be taken to the profit and loss account to the extent that they reverse a loss that was recognised in previous accounting periods.

(Continued on page 6)

notebook

legal developments

new eu accounting directive

In June the European Parliament approved a directive on annual financial statements, consolidated financial statements and related reports. This will replace the Fourth and Eighth directives, which have been in force in the UK since 1981 and 1989 respectively. The new directive is likely to trigger further simplification of the rules governing the accounts of smaller companies. It raises the thresholds for qualification as small to £8m for turnover and £4m for the balance sheet, with the number of employees staying at 50. However, member states may opt for thresholds 50% above these figures. In the past the DTI policy has been to make maximum use of all EU concessions. The directive requires fewer items to be disclosed in the notes to the accounts.

In addition to these changes the directive provides for a category of micro companies for which even simpler provisions will apply, starting with turnover of £0.7m, a balance sheet total of £0.35m and 10 employees. The next stage is likely to be a consultation by BIS on the detailed proposals for the UK, followed by amendment of the Small Company Accounting Regulations. The full text of the new directive may be found at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF

financial reporting

accounting update

In the last Bulletin we reported that the FRC had issued a new version of the foreword to accounting standards but omitted to mention that FRC had adopted the term FRC abstracts to refer to any abstracts that it issues. The terms SSAPs and UITF abstracts will continue to be used for publications issued by the ASC and UITF.

For subscribers to small company reporting, and probably most UK accountancy practices the most important FRC development since the last edition has been the publication, in March, of FRS 102, which sets out the new framework for all UK accounts apart from those governed by IFRS or the FRSSE. Our fist review of this will be found on page 2 but we expect to include several articles on key features of the standard before it comes into effect. However, most of the publications from the FRC have had to do with matters affecting major companies and their auditors and it is continuing to engage in discussions with other standard setters about the IASB work on a new conceptual framework for IFRS and on all IASB proposals to revise its standards.

auditing

audit and assurance update

Since the last edition the FRC has issued four statements concerned with auditing and assurance, one on going concern, which will eventually affect all companies and three on accounting standards which will generally affect only larger companies. At this stage none of the changes require revision of the checklists or working papers in the SCR manuals.

going concern guidance

In June last year the FRC published the report of the Sharman Inquiry *Going Concern and Liquidity Risk: Lessons for Companies and Auditors.* This recommended that the Council should review and revise its guidance for directors and standards for auditors on going concern. In January this year this resulted in a consultation document suggesting that all companies should conduct a review of its "solvency and liquidity position and significant risks informed by the company's business planning processes, risk management framework and internal controls". Based on the review the board would be required to decide the financial statements should be drawn up on a going concern basis and whether there are material uncertainties about the company's ability to continue as a going concern. It was also proposed to strengthen related auditing procedures. In June it published the responses to its proposals and announced that it would be issuing a new consultation document in the autumn. This will:

- separate, simplified guidance for SMEs.
- make a clearer distinction between the use of going concern to describe both the specific assessment required when preparing the financial statements, and the broader assessment of the risks affecting a company's viability,
- make a clearer link between the assessment of business viability risks and the broader risk assessment that should form part of a company's normal risk management and reporting processes.

Full details can be found at.

http://www.frc.org.uk/News-and-Events/FRC-

Press/Press/2013/June/FRC-to-adopt-lessons-from-consultation-on-going-co.aspx

internal audit and revision of ias 315 and 610

Also in June the FRC issued rules which prevent auditors from using internal audit staff as "direct assistance" members of the audit team. This goes further than the changes made by the IAASB, which only bans the use of work carried out by internal audit, and it intended to strengthen the principle of auditor independence. The changes were effected as amendments to IAS 315 and IAS 260. Full details can be found at: http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/June/FRC-prohibits-the-use-of-internal-audit-staff-on-t.aspx

revisions to ias 700 auditors reports

In June the APB issued a revision to FRS 700 to require auditors reporting on companies which apply the UK Corporate Governance Code to explain more about their work. Specifically such auditors must:

- Provide an overview of the scope of the audit, showing how this addressed the risk and materiality considerations
- Describe the risks that had the greatest effect on:
- the overall audit strategy
- the allocation of resources in the audit
- directing the efforts of the engagement team
- Provide an explanation of how they applied the concept of materiality in planning and performing the audit.

Readers will find an example of the structure of the new report at:

http://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-700-(UK-and-Ireland)-700-(Revised)/Illustrative-example-of-a-UK-auditor-s-report.aspx

The new rules apply for periods commencing on or after 1.10.12 but will only affect auditors of major entities.

wording of the audit report under frs 101/102

The FRC has advised interested parties that where frs 101 or frs 102 are applied it would be useful to make clear which framework has been applied. Accordingly it has suggested that the final sentence of the introductory paragraph of the audit report should read:

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including [FRS 101 "Reduced Disclosure Framework"] [FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"].

professional matters

tech 10 /12 AAF – reports to third parties.

Towards the end of last year the ICAEW issued Technical Release TECH 10/12AAF, an updated version of Audit 1/01, originally issued in 2001. Both statements provide advice to assist professional accountants when asked to provide reports requested by third parties. The changes to ICAEW TR Audit 1/01 comprise:

- incorporating, or where appropriate replacing, references and sources that have become available since the original publication of ICAEW Technical Release Audit 1/01 in 2001;
- revising technical terms in line with relevant standards and guidance; and
- adopting the current presentational style for ICAEW Technical Releases.

There is no change to the substance of guidance previously issued and the illustrative wordings in the Appendices remain as set out in 2001, but should be read in the light of subsequent guidance, particularly ICAEW Technical Release TECH 02/11 Managing the professional liability of accountants.

frs 102 investment properties

(Continued from page 3)

transitional adjustments

FRS 102, in its entirety, becomes mandatory for reporting entities for accounting periods commencing on or after 1 January 2015 (with early adoption permissible). Many practitioners are asking what will happen to existing revaluation reserve surpluses on transition.

Section 35 to FRS 102 deals with first-time adoption issues and recognises that there will be transitional adjustments due to changes in accounting policy (including presentational changes which are also considered changes in accounting policy). On transition to the new UK GAAP, any existing revaluation surpluses will be moved into profit and loss account reserves (Section 35 at paragraph 35.8 also permits the use of 'another category of equity' to take transitional adjustments if the reporting entity deems this appropriate).

deferred tax implications

Unfortunately, the move by the FRC to align deferred tax requirements in FRS 102 more closely to IFRS for SMEs will mean that deferred tax considerations will be triggered where investment property is concerned. This is because under Section 29 *Income Tax*, reporting entities will have to measure deferred tax for investment property using the tax rates and allowances that apply to the sale of the asset. An exception to this applies to investment property which has a limited useful life and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time.

Currently in FRS 19 *Deferred tax*, no deferred tax is recognised on timing differences that arise when non-monetary assets are revalued, unless, at the balance sheet date, the reporting entity has:

- entered into a binding agreement to sell the revalued assets; and
- recognised the gains and losses expected to arise on sale.

points arising

wording of various documents following abolition of ASB and APB.

Could you provide some guidance on whether we should still be referring to the APB and ASB in documents such as audit reports and engagement letters, given that both bodies were abolished in July last year?

In our opinion references to the ASB and APB in all current documents should be replaced by references to the Financial Reporting Council. The ICAEW Help Sheet 13 on Engagement letters was amended in December 2012 to cover this point. However, the ICAEW audit regulations reissued in April 2013 still refer to the APB, as do the current ACCA version. The FRC has not yet issued a revised version of Bulletin 2010 / 2 to replace that issued in March 2012 and in a website update to example 9, to cover changes to ISA 700, still refers to the APB. We will be not amend the examples in the manuals until the official guidance is updated, to be sure that it is consistent.

signature audit reports by a sole practitioner

I practice in my own name and during a recent monitoring visit was told that I needed to add "Senior Statutory Auditor for and on behalf of (myself)" is this correct?

Section 503 of the Companies Act says that "Where the auditor is an individual it must be signed by him" and only where the auditor is a firm must if be signed by the senior statutory auditor. One reason for the confusion is that the Audit Regulations of the professional bodies assume that all practitioners as firms and register of auditors describes every auditor as a firm, even where practising in their own name. However, the Act clearly provides for individuals to be auditors. In our view you should definitely sign the report in your own name and describe yourself as a statutory auditor. (The ICAEW help line initially gave a a split decision, but after 24 hours concurred with this interpretation.

directors' transactions

I recently listened to a webinar on auditing related parties in which one of the speakers suggested that it was necessary to show directors transactions in small company abbreviated accounts, because it was a statutory disclosure in the full financial statements. At the end one of the questions said that her checklist did not show transactions but did show loans, quasi loans and credit transactions. Your checklist does not show either – what's the corrects position – I'm totally confused?

There is no longer a statutory requirement to disclose directors interests in transactions in full financial statements. The requirement under the CA85 Sch.6.22 does not appear in the 2006 Act. Whilst there *are* references in CA06 to loans, quasi loans and credit transactions (s.197), these concern approval by the members and do not involve disclosure in the accounts. Disclosure *is* required in the individual accounts of "advances and credits" in favour of directors (s.413) but neither term is defined in the Act. Whether the s.413 disclosures need showing in small company abbreviated accounts is anything but clear. S.444 allows a small company to submit an abbreviated balance sheet drawn up in accordance with the regulations in SI 2008.410 Schedule 4. It is debateable whether details of transactions are notes to a balance sheet. Sch.4 also lists some items from the profit and loss account but makes no reference to directors' loans or transactions. Outstanding balances might require disclosure as notes to the balance sheet but, unlike CA85, CA06 s413 does not include a requirement for disclosure of balances in the individual accounts. Some people take the view that CA06 requires inclusion of s413 disclosures but we have never been able to locate a statutory source of any requirement to show them in the abbreviated accounts. (We have asked ICAEW whether our interpretation is correct and are investigating. We will let you know if our interpretation proves incorrect).

correction of an error

We have just discovered a mistake in last year's accounts of an audit client. The client had recognised expenditure on £300k fixtures and fittings installed in an old mill which was being renovated and a corresponding creditor. There was also a related depreciation charge of £9k. Once the project was finished it was to be rented to a third party. It now transpires that the invoice for the expenditure had been paid by the intended occupant. The company had sales turnover of £700K, a pre-tax profit of £235K and gross assets of £10.8m.

The treatment of errors under UK GAAP is dealt with in FRS 3 para 7, which restricts prior period adjustments to correction of errors which are fundamental – described in FRS 3.64 as "errors of such significance as to destroy the true and fair view and hence the credibility of those financial statements". It seems clear that this was a material, but not a fundamental, error so the 2012 accounts should contain a note explaining the matter, but the comparative figures should not be restated. The adjustment should appear in the table showing the movements in investment properties under an appropriate caption. The same action is required by the FRSSE, but under IFRS and FRS 102 all material errors are dealt with by retrospective restatement.

Notebook*: (Continued from p. 6).*

new public interest disciplinary arrangements

On 1 July the FRC published details of a new scheme which updates the disciplinary arrangements covering cases of potential misconduct which raise or appear to raise important issues affecting the public interest in the UK. These are unlikely to be of much practical significance to firms subscribing to **small company reporting** but full details can be found at: http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/July/FRC-publishes-new-disciplinary-arrangements-for-ac.aspx

publication and subscriptions

New subscribers to the paper versions of the small company reporting manual receive two loose-leaf files containing company accounts checklists, specimen small company accounts, a companies act guide accounting standards summary and auditing statements summary. New subscribers to the scr procedures manual receive three loose-leaf files one containing explanatory notes and model working papers covering accounts preparation, small audits and compliance procedures and another dealing with specialist assignments. Disc subscribers receive copies of the paper versions in pdf and selected sections in Word format. All subscribers receive the quarterly bulletin incorporating bulletin pages, and written permission to copy the checklist, specimen accounts and working papers for use by the registered firm

subscriptions: for 2013	*Initial paper*	*Renewal paper*	*Initial or renewal disc*	*Disc as extra*
Small Company Reporting	£150	£95	£114.00 inc VAT	£24.00 inc VAT
SCR Procedures Manual	£170	£95	£114.00 inc VAT	£24.00 inc VAT
Both publications	£300	£170	£204.00 inc VAT	£48.00 inc VAT

The renewal subscription is due 12 months after initial enrolment as a subscriber. Renewal notices are sent out with the last bulletin due under the current subscription.

subscription enquiries and administration Mrs J Bryant, Director, Small Company Reporting Limited, Linden House, Chapel Hill, Clayton West, Huddersfield, West Yorkshire, HD8 9NH, Telephone: 01484 862076, Fax: 01484 865960. E-mail rbryantscr@tiscali.co.uk. Subscriptions may be paid by BACS, Cheque, Mastercard, VISA or Maestro.

update instructions

This update reflects developments between 31 December 2012 and 30 June 2013 and for small company reporting covers changes arising from the publication of FRS 102, including a new section to the manual summarising the rules governing UK GAAP for periods commencing on or after 1.1.15. We have also added a new section to Part 3 covering heritage assets, which we had previously overlooked. The update material for the procedures manual includes amendments to the explanatory notes covering recent amendments to UK ISAs and revisions to the example engagement letters. We have deferred amending example audit reports to replace references to the APB until the FRC updates it's the examples in Practice note 2010/2.

small company reporting

Introduction. *Replace pages contents page, page 3 and 5-8,*

Part 2 – Medium-sized and large companies. Contents amended to refer to FRC, rather than UITF, abstracts. Para 2.1.19 added. Para 2.8.46-55, showing lapsed FRS 8 disclosures, deleted and pages renumbered. Para 2.8.65 excepting heritage assets from FRS 15 added. *Replace pages 1,2,29-31 and remove 31/1-31/2. Replace 34.*

Part 3 Supplementary – Contents amended to refer to FRC standards, rather that accounting standards and FRC, rather than UITF, abstracts. Para 3.11.5A added on subsidiary audit exemption balance sheet statement. New section 3.20 added. *Replace pages 1 and 28-29. Add pages 72-73.*

Binder 2 – *Replace contents page*

Part 6 – Accounting Standards. Amended to reflect changes applicable for periods commencing on or after 1.1.15 to paragraphs 6.13, 6.45 and 6.45 A-C, 15.7 and definition for related parties. *Replace pages 1/5,1/7,1/19,1/21.*

Part 7 – Financial Reporting Standards. *Add new section. Pages 1-115.*

scr procedures manual

Introductory notes / Update information *Replace pages 8-11*

Part 1 – Explanatory Notes. Paragraph 2.3.1 charity threshold corrected and 5.700.19A and 19B added. *Replace pages EN.6 and 19/100. Add 19/100/1.*

Part 3 – Accounts Preparation. Audit exemption threshold clarified. Engagement letter paras 16,24,36 and note 4 revised. *Replace pages AP.7,21-23/1.*

Part 4 – Assurance engagements.. Engagement letter paras 27,36,41 revised *Replace AE.13,15.*

Part 5 – Audit. Engagement letter para 27,40,44 and note 1 revised *Replace AU.62/2,62/4-62.5.*

Part 11 – Solicitors (filed in vol 2). Engagement letter para 13 and 26 revised *Replace SOL.54 and 56*

Part 7 – Pensions Schemes. References to APB and UITF replaced or updated. .Engagement letter para 24, 37 and 41 revised. *Replace PEN.70,73, and 75. (Retain 75/1-75/8). Replace 76..*

Part 9 – Clubs. References to APB and UITF replaced or updated Engagement letter for accountant's report para 6.1 and 14.1 revised *Replace. CL1, 50-.51 and 52/1.*