Return to Index

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introducing new checklists

The update accompanying this edition includes a new version of Part 2 of the checklist dealing with medium-sized and large companies based on FRS 102. It also includes amendments to the existing checklists in Parts 1 and 2 to cover the implementation of *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*. For periods ending on or after 30 September 2012, the new regulations simplify the content of the directors' report for all companies and move the requirement for a business review to a new strategic report from which small companies are exempt. This article explains the changes. Whilst primarily aimed at subscribers to Small Company Reporting it should provide a useful insight for procedures manual subscribers who use other checklists.

changes to directors' reports

For small companies, the key changes are removal of the requirement to show principal activities and charitable donations. These items also disappear for medium-sized and large companies. However, FRS 102 requires disclosure of "the nature of an entity's operations and its principal activities" in the financial statements or accompanying business review or similar statement. The disclosures relating to acquisition of own shares is now only applicable to public companies, but they and their large subsidiaries are no longer required to disclose policy on payment of creditors. All of the other current requirements remain. However, important post balance sheet events, likely future developments and political contributions may appear in either the director' report or the strategic report. So may the disclosures covering employee involvement and employment of disabled persons, both of which apply only to companies with 250 or more employees. In every case the directors' report must state when information is shown in the strategic report and in respect of which information. We have also deleted the disclosure relating to adoption of the Euro, which disappeared with withdrawal of UITF 21 some time ago.

The provisions governing business reviews must now be shown in the strategic report prepared by companies not talking advantage of the small companies regime. The provisions have been transferred without change, except for quoted companies, which must now provide information on "the main trends and factors likely to affect the future development, performance and position of the business". They must also give information, about environmental matters, the company's employees and social, community and human rights issues, including information about relevant polices and their effectiveness. In addition they must disclose specified information covering strategy, the business model, the gender distribution of both directors and senior managers The latter are defined as employees responsible for planning, directing and controlling the activities of the company or a strategically significant part of it. Where a company is a parent, and prepares group accounts, the strategic report must be a group strategic report. Approval and audit procedures are the same as for directors' reports and the regulations, which insert new sections 141 A-D into the Companies Act 2006. These include an exemption from disclosure of impending developments and matters in the course of negotiation which would be seriously prejudicial to the interest of the company.

the new checklist for medium-sized and large companies

The new checklist must be used for financial statements dealing with periods commencing on or after 1 January 2015, although it can be used earlier. As with its predecessor, Part 2 of the checklist shows the requirements for most medium-sized and large companies in a "normal" period. Requirements which apply to a minority of such companies, or occur infrequently, will be shown in a few version of Part 3 of the checklist, to be distributed in the next update. So the checklist covers all of the "mainstream" requirements of FRS 102, together with those from the Companies Act 2006, the accounts and reports regulations in SI 2008.410, ISA 700 and a few other sources. All of the requirements of FRS's, SSAPs and UITF statements have been deleted and those of FRS 102 inserted. The Companies Act material, apart from that on the directors' report is unchanged and the application checklist is virtually the same as in the current version, although it does now refer to "financial liabilities at fair value through profit or loss" – from which jargon there is no escape!

basic structure and approach

The material in section 2.2 dealing with directors' and strategic reports is the same as in the current version, subject to the revisions in this update, described above. Section 2.3 on audit reports is unchanged. Section 2.4 contains the general rules governing financial statements from the 2006 Act as well the provisions on general principles, qualitative characteristics and presentation from FRS 102. The disclosures about departures from companies' legislation and the standard, the requirement for consistent accounting policies and the treatment of changes are essentially the same as under current practice. However, there is a significant difference in paragraph 2.4.11 in that the correction of all prior period errors is to be made retrospectively, whereas at present this only applies where the errors are fundamental, and in consequence destroy the true and fair view.

The section on qualitative characteristic deals with many familiar issues from FRS 5 and FRS 18, including materiality, reliability, substance over from, prudence, and comparability but additionally refers to timeliness and the balance between benefits and costs. It introduces a requirement for accounts to be presented "at least annually" which presumably requires the matter to be treated as a departure where, exceptionally, a longer period is used. Presentation is to be consistent, with any reclass-ification explained. Corresponding amounts are to be provided for all amounts presented in the financial statements and for narrative and descriptive information where necessary to an understanding. The Companies Act rule prohibiting offsetting is qualified by the proviso that it is acceptable where there is a legal right of set-off or the items are to be settled on a net basis or simultaneously. Similar items are to be presented separately as a class separately from dissimilar ones, unless immaterial. Any provision of FRS 102 or the Regulations may be disregarded where the amounts concerned are not material.

FRS 102 says that the accounts must include a statement of financial position, an income state-ment, a statement of comprehend-sive income, a statement of retained earnings, a cash flow statement and notes. There is some scope for combining some statements, with a change in the approach for income treated as a change in accounting policy. Finally, as shown in paragraph 2.4.36, FRS 102 requires entities to show prominently the company name, and any change since the end of the preceding reporting period, whether financial statements cover an individual entity or a group, the period covered and date of period end, the presentation currency and the level of rounding used. Most of this information is already in financial statements but they must also show:

- the legal form, country of incorporation and the address of the registered office (or principal place of business, if different from the registered office); and
- a description of the nature of the entity's operations and its principal activities, unless this is disclosed in the business review (or similar statement) accompanying the financial statements.

the primary financial statements

Under the 2006 Act companies not applying IAS or the small companies regime must apply SI 2008.410. So FRS 102 confirms this requirement but as it's based on the IFS for SMEs it uses the terminology from that to refer to the primary financial statements. Thus it requires entities to prepare a statement of financial position and income statement, but permits them to be called a balance sheet and profit and loss account. What is not clear is whether the headings "balance sheet" and "profit and loss account" must appear in the accounts. Section 396 of the Act says that every company must produce a balance sheet and a profit and loss account. Does this mean that these terms must appear in the accounts? Can a balance sheet be a balance sheet and fulfil the legal requirement if it is called something else? If the example of the Charity SORP were to be followed it would be acceptable to use the IFRS terminology provided the captions said "including balance sheet" and "including profit and loss account". Because this is unclear we will not be issuing an FRS 102 version of the specimen accounts for the time being. However, we have opted to use the new headings for the sections of the checklist. What is clear, is that the primary statements must show the headings required by the formats, but may adapt some headings and include additional ones required by FRS 102, under the format rules of the Regulations.

the statement of financial position

The rules governing signature and the information supporting the balance sheet is shown in paragraphs 2.5.2 to 2.5.13. There is no longer a requirement to show shareholders' funds outstanding on the face or prepaid contributions to defined contribution pension schemes on the face or in the notes. The new rules make clear that long term creditors exist where there is an unconditional right to defer payment for at least 12 months from the reporting date (2.5.11). FRS 102 also contain specific rules about when current and deferred tax assets and liabilities can be offset before inclusion in the balance sheet .(2.5.13/14).

statements of income, equity and retained earnings

FRS 102 requires accounts to include a statement of comprehensive income (SCI). This shows material which would previously have appeared in the profit and loss account and STRGL. However, the information can be presented as two separate statements with a separate income statement, which may be called the profit and loss account, and a statement of comprehensive income. Where a separate SCI is prepared, the first item must be profit or loss for the year, which is the final item in the income statement. As with the balance sheet, the income statement must show the headings from the Companies Act formats. However, under the Act the only item which must be shown on the face of the profit and loss account is the profit or loss on ordinary activities before taxation. All of the other headings may be adapted or combined and shown in notes, so there is more scope for following the style of IAS accounts. FRS 102 requires turnover to be shown in the face of the income statement, without including VAT even if it is shown as a deduction from the gross figure. Although it is not compulsory to show operating profit, if it is shown, it must include items "normally regarded" as operating and not exclude items just because they do not involve cash flows.

Under FRS 102 the reconciliation in shareholders' funds becomes a statement of changes in equity and is now a primary statement, to be given equal prominence with the balance sheet and profit and loss account. Because this requirement is not derived from the Companies Act, there is no scope for varying the title. The content is shown in paragraph 2.7.2 However, the statement may be combined with that on combined income to become a "statement of income and retained earnings", something that was outlawed under FRS 3. What this means is, that in many cases, it will be possible to shown all of the items in profit and loss account, dividends and reserve movements in one statement. However, in contrast to the bad old days all of the information will appear "up front" rather than be buried in the notes.

cash flow statement

Since adopting IAS, quoted companies have been producing cash flow statements just like those in the first version of FRS 1, published in 1991, rather than the improved version which appeared five years later. As a result, there are now only three main headings, cash flow equivalents are back and the reconciliation to net debt disappears. The cash flow from operating activities can be included in the statement, rather than shown separately. The requirements are shown in section 2.8 of the checklist. There are no exemptions for 90% subsidiaries where consolidated accounts are prepared. We have not shown line by line changes in the Word version of the disc, because the layout is so different from current practice.

notes to the accounts

Accounting policies. As with FRS 18, FRS 102 requires disclosure of material accounting policies. However, it additionally specifies that they must be presented in a systematic manner with full cross referencing and the notes must follow the sequence of the primary statements to which they relate. (2.8.1) Disclosure requirements for specific items are similar to the present ones but now include financial instruments, recognition of revenue and valuation of property, plant and equipment. (2.8.4). The requirements covering changes in accounting policies and estimates and prior period errors are similar, but with new jargon, and in more detail. In addition it will be necessary to disclose information about judgements made in applying policy and key sources of estimation uncertainty. (2.8.5-2.9.11).

Component of income. FRS 102 introduces a number of new disclosure requirements for components of income. The amount of each category of revenue must be show, including that from:

- the sale of goods;
- the rendering of services;
- commissions;
- grants; and
- any other interest;
- royalties;
- dividends;
- other significant types (2.8.18)

In addition to amounts specified by the Regulations, amounts must be shown for inventories expensed, impairments, grants, borrowing costs capitalised during the period and an analysis of the income, expenses, gains and losses of each category of financial instrument. (2.9.19-2.9.24). It will also be necessary to show details of long-term and termination benefits for employees as well as the total compensation for key management personnel (22.9.31-32).

Related party transactions. The definition of a related party in the current checklist is based on FRS8, which already match those in the IFRS for SMEs. However, the definition of a "transaction with a related party" is different and no longer includes "transactions for or on behalf of a related party" (2.93.47). But the greatest change is that it is no longer necessary to identify particular parties, reporting instead the totals in four categories. Detailed disclosures are similar but it is now possible to aggregate balances, whereas previously only similar transactions could be aggregated (2.9.50). However, in contrast to FRS 8, the new standard does not require consideration of the materiality of the transaction to the other party when a director or close family member or entity controlled by one them.

Taxation. The disclosure requirements for tax are, in effect, similar to those under FRS 16 and 19, but there is no longer a specific requirement to report unrelieved ACT or changes to the amount thereof. ((2.9.55-58)

Financial instruments. The provisions of FRS 102 for financial instruments reflect the complexity of the IAS 39 on which they are based. However, where all investments are held at cost, or cost less any adjustments for interest and impairment, and there are no complex borrowings or derivatives, the disclosures will be relatively simple. Where items are shown at fair value the disclosures become much more complicated (2.9.64-68). For most companies, the biggest change will be the need to show the amount of inventories, property, plant and equipment and financial assets that have been pledged as security for liabilities and the terms and conditions thereof (2.9.69). However the most controversial change may be that relating to disclosures on defaults and breaches on loans (2.9.71).

Fixed assets and leases. The requirements for fixed assets and leases are similar to FRS 15 and SSAP 21 but leased assets need not be shown separately and there is no reference to hire purchase. (2.9.60-62 and 2.9.72-73).

Share capital. Here the requirements are a little more detailed than under current requirements, which are largely taken from the Companies Act, but in practice will not usually result in more or different information being disclosed (2.9.74-77).

Provisions and contingencies. FRS 102 includes a new requirement covering binding sale agreements for major asset disposals but otherwise has identical requirements on provisions, reflecting the fact that the international standard was initially developed in conjunction with FRS 12 (2.9.81-92).

getting ready for the change

For most clients first accounts that must be prepared under FRS 102 will be for the period ending 31.12.15, but the opening figures for the comparative year will be those for 31.12.13, so it would be prudent to start thinking about whether any information for the change should be gathered next year. Fortunately, for most companies, most of the change will be relatively straight forward, with no need to work out new figures and many issues identified by accounting software. However, there will, inevitably, be some teething troubles. My experience of the changes in legislation since 1981 and three decades of applying new and revised standards, is that when it seems that something is straight forward it isn't and when all of the issues seem to have been resolved, they haven't There will always be anomalies that no one has yet identified and these will only emerge over the next few months. Indeed the FRC has already begun to consider queries arising from implementation and has established a website showing editorial amendments and clarification statements on FRS 102 at: www.https://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/The-future-of-UK-GAAP.aspx

points arising

using the checklists

When I open sections of the SCR and SCR PM discs as Word documents (scr_pdf) they show all of the inserts and deletions in red. Why is this happening and how do I get rid of them?

When you use Word 2010, but not earlier editions documents open in the *Final Showing Markup* mode, which tracks the alterations since the last update. By using the *Review* tab you can change the view to *Final* and the amendments will disappear but they will reappear when you next open the file. We deliberately leave the alterations in the text so that you can see what changes have been made. If you want to avoid this happening every time you open the file you should click the drop down menu for *Accept and select Accept all changes in Document* then save a copy of the file to hard disc or some other medium. In fact, we recommend that you set up an SCR and SCRPM folder on your hard disc and copy all of the files to it from the disc and replace them for each new edition. If you place a button on your desktop to the file called index.pdf" in the "SCR_PDF" folder you can open the content from your desktop. You could also create buttons linked to the Word files. Otherwise you will need to use *Windows Explorer* to access them. You will find more information in the introductory notes of *SCR on Disc* and *SCR PM on Disc*

threshold for becoming a medium-sized company

I am under the impression that as soon as a company exceeds the small company threshold it must have an audit, rather than when it becomes medium-sized. Is this correct?

Section. 477 (2) of the 2006 Act now says that a company is exempt from audit if it qualified as small under s.382 and that says it is small if the conditions are met in the current and preceding year. The point of the change was to remove the separate balance sheet and turnover requirements in 477(2). As far as I can see nothing else has changed in s.477 – so if it covered the first year over the thresholds before, it should do so now. You can find the latest and original versions of the Act at http://www.legislation.gov.uk/ukpga/2006/46/contents

capitalisation of property costs

My client has acquired a long leasehold building with the objective of converting it to a chemists shop. However, there have been delays in obtaining planning permission for the necessary changes. Is it acceptable to capitalise the costs of rates, insurance, planning fees and initial development until the shop opens?

FRS 15.7 says that the costs directly attributable to bringing an asset into working condition for its intended use should be included in its measurement. Paragraph 10 says that these include costs of site preparation, clearance, installation costs and professional fees. Insurance and rates should probably be omitted because these would be incurred even if the building were not under development. Capitalisation should cease once the building is ready for use, even if not used immediately.

independence and accounts compilation

We prepare accounts for a golf club and one of our partners would like to take on the role of Treasurer, can the firm continue to act for this client?

It all depends on what sort of report is going to be attached to the accounts. Where the report is intended to provide assurance you need to be seen to be independent but there is no objection to the finance director of a company preparing its accounts. So there would not be a problem if the Treasurer took responsibility for the accounts and attaches a suitable report saying what he has done, provided he does not do so on behalf of the firm. Clearly you would need to determine what degree of reassurance the club requires. Using a partner in a different office might be seen as a reasonable compromise. Using another firm would clearly appear to give stronger protection.

notebook

legal developments

directors' and strategic reports

New regulations governing the content of directors' reports and introducing a requirement for medium-sized and large companies to prepare a strategic report came into effect on 1 October. SI 2013.1970 - *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013* remove the requirement to include a business review in the directors' report and instead requires a *strategic report* covering identical information, for unquoted companies and enhanced information from listed ones.

In addition the regulations remove a number of existing requirements for all companies, including the need to show principal activities (necessary under FRS 102), and charitable donations. Medium-sized and large companies are no longer required to make a disclosure about the market value of land and PLCs and their larger subsidiaries are no longer required to show the policy on payment of creditors. Only PLCs are now required to show information about acquisition of own shares.

Quoted companies will have to show information about strategy, their business model, a breakdown of the gender of directors and senior management and greenhouse gas emissions. In addition the regulations abolish summary financial statements and, instead allow companies to send members a copy of the strategic report. At the same time Parliament revised the rules on defective reports and extended them to strategic reports. SI 2013.1971 also covers revision of defective directors' remuneration reports and removes references to summary financial statements.

micro companies and audit thresholds

Parliament is shortly expected to approve new regulations allowing micro companies to prepare much simplified accounts. An increase in the thresholds for the small company regime is also imminent, with the increase expected to be at least a third and, possibly to double their current level. However, nothing had emerged at the time of going to press. We now expect to cover the changes in the edition due early in the new year. Copies of the draft regulations for Micro companies can be seen at: http://www.legislation.gov.uk/ukdsi/2013?title=Micro%20entities%20

financial reporting council

accounting update

There have been no significant statements on financial reporting from the FRC since the last update. However, it is worth noting that the FRC has set up a UK GAAP Technical Advisory Group to advise on accounting (and related company law) for entities applying UK accounting standards, principally small and medium-sized entities. Its initial focus will include, the implementation of FRS 102 and the future of the FRSSE. Amongst the members is Paul Gee, who has just written a book on *Financial Reporting for Unlisted Companies in the UK and Republic of Ireland* with our regular contributor Steve Collings. For details of the book see: http://www.amazon.co.uk/Financial-Reporting-Unlisted-Companies-Republic/dp/1780432291
and for information about the new group see: http://www.frc.org.uk/About-the-FRC/FRC-structure/Accounting-Council/Committees-and-work-streams/Academic-Panel-(1).aspx

balance sheet exemption statements

Most people will have missed the following statement on the FRSSE pages of the FRC website:

It has been brought to our attention that, in referring to the small companies regime, the footnote to paragraph 2.6 and paragraph 2.30 of the FRSSE (effective April 2008) are not consistent with the wording of the Companies Act 2006 (the Act). The footnote to paragraph 2.6 has been amended as part of the FRSSE (effective January 2015), as set out in FRS 100 *Application of Financial Reporting Requirements*. For consistency with the Act paragraph 2.30 should be read as follows (deleted text is struck through, inserted text is underlined):

2.30 A COMPANY'S ANNUAL ACCOUNTS MUST BE APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON BEHALF OF THE BOARD BY A DIRECTOR OF THE COMPANY. THE SIGNATURE MUST BE ON THE COMPANY'S BALANCE SHEET. The date on which the financial statements are approved by the board of **directors** shall be disclosed in the financial statements. THE BALANCE SHEET MUST CONTAIN, IN A PROMINENT POSITION ABOVE THE SIGNATURE, A STATEMENT THAT THE ACCOUNTS HAVE BEEN PREPARED IN ACCORDANCE WITH THE ~~SPECIAL~~PROVISIONS <u>APPLICABLE TO SMALL COMPANIES WITHIN</u> PART 15 OF THE COMPANIES ACT 2006 ~~RELATING TO SMALL COMPANIES~~.

This confirms that the wording used in most accounts prep software is wrong. However as section 414(3) of the CA 06 says that the balance sheet must contain "a statement to the effect that" "the accounts are prepared in accordance with the provisions applicable to companies subject to the *small companies regime"*, and does not mention Part 15 or the Act, we cannot see that, the even the FRC statement is correct. Chapter and verse at:

http://www.legislation.gov.uk/ukpga/2006/46/contents

(Notebook continued on page 7)

frs 102: how will it affect the frsse?

Many companies in the UK choose to apply the Financial Reporting Standard for Smaller Entities (the FRSSE) in preparing their financial statements. Financial reporting is about to undergo the biggest change it has seen for several years with the introduction of a new set of financial reporting standards (FRSs 100, 101, 102 and 103) and a new financial reporting regime brings with it some new practices that accountants must get to grips with. This article, by *Steve Collings*, looks at how the FRSSE will be affected with the new regime and considers some key points that will be of interest to practitioners.

The FRSSE was first introduced in 1997 and since its introduction has seen it updated five times. Companies are currently using the FRSSE (effective April 2008) when preparing their financial statements, however with effect for accounting periods commencing on or after 1 January 2015, there will be a new version of the FRSSE (effective January 2015). Early adoption of FRSSE (effective January 2015) is permissible, although it is likely that the majority of companies will not adopt the standard earlier than its effective from date.

The FRSSE is based on current UK GAAP and is a much-loved standard by practitioners because it offers a simple financial reporting framework, is very easy to navigate and is very straightforward to apply. The good news is that there are no immediate proposals to withdraw the FRSSE - however, it is very likely that there will be further changes made to the FRSSE in the future as it is currently based on FRSs and SSAPs which are going to be consigned to the history books from 2015.

next edition

The next edition, to be issued early in the new year will include a revised version of Part 3 to reflect FRS 102 and probably material covering publication of the regulations on Micro companies and consequential changes to the FRSSE.

status of the FRSSE

Some of the changes in the new edition of the FRSSE been made to aligned it to FRS 102 and the current framework centred on the Financial Reporting council.

- The Status of the FRSSE has been changed to become the FRSSE (effective January 2015) and paragraph 1 has been changed to remove inapplicable text.
- Paragraph 2 has been changed to include reference to FRS 100 *Application of Financial Reporting Requirements* and also to remove reference to old UK GAAP.
- Paragraph 4 has been changed to refer to the new UK GAAP and acknowledges the consequential changes to the FRSSE where it previously referred to standards or Abstracts that are now withdrawn.
- Paragraph 5 is amended in respect of transactions and events that are not covered by the FRSSE. In current UK GAAP, if a transaction or event is not covered by the FRSSE, the accountant will go to mainstream UK GAAP or an alternative financial reporting framework (e.g. IFRS) to decipher the appropriate accounting treatment. Paragraph 5 is amended so that entities must first have regard to their own existing accounting policies and then go to FRS 102 to develop a new accounting policy.
- Public benefit entities are now referred to in paragraph 5A.
- Paragraph 6 is amended to refer to the Financial Reporting Council as opposed to the Accounting Standards Board.
- Paragraph 10 is amended requiring entities that are not eligible to use the FRSSE to report under EU-adopted IFRS, apply FRS 101 in the individual financial statements of qualifying entities or apply FRS 102 in accordance with the requirements in FRS 100.
- Paragraph 11 is amended to remove reference to the first issuance of the FRSSE in November 1997.

main body of the FRSSE

Changes to the main body of the FRSSE are as follows:

- The footnote to paragraph 2.6 is amended to include provisions ‘applicable’ rather than ‘relating’ to small companies.
- Capitalised goodwill and intangible assets having a finite useful life is amended so that the useful economic life is now five, rather than 20, years.
- Paragraph 6.45 is amended to remove the suggestion of obsolescence or a fall in demand for a product.
- Paragraph 6.45 is removed above as we now have paragraph 6.45A which specifically requires an entity applying the FRSSE to undertake an assessment of whether there is any indication of asset impairment and where there is, to write down the asset to recoverable amount. Paragraphs 6.45B and 6.45C also deal with asset impairment issues.
- Paragraph 15.7 is amended so as to include paragraph (d) which says that related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member, does not require disclosure as a related party transaction.

changes to the definitions for related parties

The new edition revises the definition of related parties and brings it into line with that already in FRS 8. Under the new provisions a related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(b) Is a member of the **key management personnel** of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a retirement benefit scheme for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity itself is such a scheme, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The definition of 'close family' is amended and now includes the person's children, spouse or domestic partner, children of that person's spouse or domestic partner and dependents of that person or that person's spouse or domestic partner. Finally the FRSSE now includes definition of 'key management personnel' and 'public benefit entities' from IAS 46.

tidying up

There are a number of changes to bring the FRSSE fully into line with other statements and the present standards setting system.

- The final sentence in paragraph 35 to Appendix IV *Development of the FRSSE* has been deleted which referred to Appendix V. Appendix V to the FRSSE (effective April 2008) has also been deleted.
- Paragraphs 38 and 39 to Appendix IV have been renumbered paragraphs 41 and 42 which refer to the relationship of the FRSSE with other documents issued by the FRC. New paragraphs 38, 39 and 40 have been included which makes reference to new UK GAAP and consequential amendments to the FRSSE (effective April 2008).
- Paragraphs 41 and 42 have been changed to remove reference to old UK GAAP and replace the word 'Board' with 'FRC'.
- Paragraph 42 has been amended to make reference to FS 102 and remove references to 'auditors', 'the board' and citation of an example of marking to market fixed interest instruments.

conclusion

Whilst the majority of the above changes will go relatively unnoticed by practitioners, the key points to note are the reduction of the useful economic life of goodwill and intangibles from 20 to five years and the new definition of a related party. Further changes to the FRSSE are highly likely so that there are no significant disparities between the FRSSE and FRS 102 and it is also likely that disclosure requirements will be changed in light of the new 'micro entities' announced in September 2013.

note book

(Continued from page 5)

audit and assurance update

In recent months the Auditing Council of the FRC has been concentrating most of its efforts on new regulatory procedures for audit firms dealing with major audits, and strengthening going concern procedures.

Just as we were finalising this edition it published the new *Auditor Regulatory Sanctions Procedure and Guidance*. It only affects firms subject to independent monitoring by the FRC's Audit Quality Review, rather than the ICAEW, ICAS or ACCA. As subscribers to **small company reporting** will not be affected, we will not review the material here but for those who are interested it may be found at: http://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Auditor-Regulatory-Sanctions-Procedure.pdf

At about the same time the FRC published draft proposals to amend UKI ISAs 260, 570 and 700 to take account of the extra work on going concern, which is to be required for major entities. Such companies will be required to undertake "a robust assessment of the principal risks facing the company, including those that would affect its solvency or liquidity. Auditors will be required to "consider" the assessment and the related disclosures. The latter will cover how threats are being managed or mitigated and which uncertainties are material to adoption of the going concern basis. The new procedures are expected to apply for period beginning on or after 1 October 2014. Full details can be found at:

http://www.frc.org.uk/Our-Work/Publications/FRC-Board/Exposure-Draft-Revised-Auditing-Standards-(extract-File.pdf

Next year the FRC plans to consult separately on draft guidance for directors of unlisted such companies and is currently considering the development of simpler and more proportionate guidance. However, it is likely that more rigorous going concern procedures will be introduced for all audits.

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

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update instructions

small company reporting

This update covering 30 June to 31 October 2013 covers changes to directors' reports and the requirement for a strategic report arising from SI 2013.1970, which must be applied to periods ending on or after 30.9.13. The audit report is amended for periods commencing on or after 1.10.12. The update also includes a new section 2 to be used for periods commencing on or after 1.1.15, or earlier if FRS 102 is applied. This should be filed in part 9 of the paper file for the time being.

Introduction. *Replace pages 5-8,*

Part 1 – Small company checklist. Para 1.2.3 and disclosure of charitable donations in para 1.2.7 deleted. Para 1.3.10 start date deleted. *Replace p.3,4 and 6.*

Part 2 – Medium-sized and large companies. New sub-section 2.2, **to be applied only to period ending on or after 30 September 2013** added. Covers introduction of strategic report and changes to directors' report. Para 2.3.10 reference to start date deleted. *Add new pages 3-6 but retain existing pages 3-6 until no longer using on accounts for periods ending before 30.9.13. Replace page 3-6 and 8.*

Part 3 - Supplementary – Paragraphs 3.11.11, 3.12.2, 3.14.2, and 3.17 updated for SI 2013.1970.. *Replace pages 29-30,42,63.*

Part 4 – Specimen accounts – Updated for strategic report and deletions from the directors' report. *Replace pages 3 and 14-16.*

Part 5 – Companies Act Guide Paragraphs 2.6.1,2.6.2, 2.6.8, 2.6.10 3.4.3, 3.8.11 and 3.11.3 updated for strategic report and deletions from the directors' report. *Replace pp 11-13, 21 and 28-29.*

Part 10 – Transitional material. Add new section 2 and retain in this section until applying FRS 102.

scr procedures manual

In updating the procedures manual to reflect SI 2013.1970 we have anticipated the changes that we expect the FRC to make to ISA 720B and to the wording of audit reports. We have also updated parts 7, 9 and 11 to reflect the replacement of the Financial Services Authority and SOCA with the Financial Conduct Authority and the National Crime Agency.

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

Part 1 – Explanatory notes. *Replace pages EN 15, 20/2-20/3, 20/26/3 and 22/1*.

Part 5 – Audit. *Replace AU.4,56-58, 62,63,66-67 and 69.*

Part 11 – Solicitors (filed in vol 2). *Replace SOL.28*.

Part 7 – Pensions Schemes. *Replace PEN.39*

Part 9 – Clubs. *2,5,53*