



12 February 2014

Our ref: ICAEW REP 28/14

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Dear Jenny,

**Draft Amendments to the FRSSE 2008**

ICAEW is pleased to respond to your request for comments on *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)*.

Please contact me or Nigel Sleigh-Johnson should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### FRED 52 Draft Amendments to the FRSSE 2008

Memorandum of comment submitted in February 2014 by ICAEW, in response to the Financial Reporting Council's exposure draft, *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)* published in December 2013.

<b>Contents</b>	<b>Paragraphs</b>
Introduction	1
Who we are	2-4
Major points	5-6
Responses to specific questions	7-19

## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft, *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)*, published by the Financial Reporting Council (FRC) in December 2013, a copy of which is available from this [link](#).

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK FRC. We provide leadership and practical support to over 142,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

## MAJOR POINTS

### Support for the initiative

5. We agree that the proposed amendments to the FRSSE 2008 are required to ensure that companies choosing to apply *The Small Companies (Micro-Entities' Accounts) Regulations 2013* ('the micro-entity regulations') are able to prepare financial statements that comply with that standard. To this end the amendments should be finalised as quickly as possible.
6. We have a number of detailed comments on the proposals, as set out below.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Do you agree with the proposed amendments to the FRSSE for micro-entities? If not, why not?**

### Definition and scope

7. The definition of a micro-entity to be included in *Part C Definitions of the FRSSE 2008* refers to the size criteria only. It does not cover the other conditions for qualifying as a micro-entity, for example, the specific rules for qualifying in the first and subsequent years, and does not explain which entities are outside of the scope of the micro-entity regulations. In our opinion, a definition which outlines only the size criteria may be misleading. It might be more useful for the definition to include all of the conditions for qualifying as a micro-entity as outlined in the micro-entity regulations.
8. We also note that the proposed paragraph 14 of Appendix 1 details how a company ceases to qualify as a micro-entity if it fails to meet the qualifying conditions for two consecutive years. However, it does not refer to the corresponding requirement that a micro-entity must meet the qualifying conditions for two consecutive years in order to qualify as a micro-entity. It might be useful for this to be clarified in the amended FRSSE 2008.

## Transitional provisions

9. Under the micro-entity regulations, a company is not permitted to apply fair value accounting or the alternative accounting rules set out in *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008*. This restriction is included in the proposed amendments to the FRSSE 2008. However, no guidance has been provided on the transitional provisions to be applied by micro-entities that currently measure assets at fair value and/or revalued amounts but will be required, on applying the micro-entity regulations, to measure these assets at historical cost. We recommend that the FRC includes guidance on this matter in the amended FRSSE 2008. This guidance may usefully cover other potential complications, for example, where the original purchase price is unknown. The FRC may also wish to consider the merits of providing a transitional exemption, similar to that allowed under FRS 15, to allow a micro-entity to treat as deemed cost the book value of a revalued asset when first applying the micro-entity regulations.

## Clarity of requirements for micro-entities

10. Proposed paragraph 1.2 notes that a micro-entity that chooses to disclose information in addition to the minimum accounting items 'shall have regard to the requirements of the FRSSE relating to that item'. This wording is derived directly from the text of the micro-entity regulations. While we appreciate the importance of ensuring consistency with the regulations, we believe it is important to further clarify the meaning of 'shall have regard to' in this context. Otherwise, as currently drafted, there is a risk that micro-entities may, in error, believe that the requirements of the FRSSE are optional for information disclosed in addition to the minimum accounting items. We recommend that the FRC provides additional guidance in order to clarify the intended meaning of 'shall have regard to'. It should be made clear that a micro-entity must follow the requirements of the FRSSE with respect to any information disclosed in addition to the minimum accounting items.
11. Proposed paragraphs 2.40 and 2.41 state that a micro-entity preparing its financial statements in accordance with section 393 (1A) of the Companies Act 2006 shall show 'only those items listed' in the balance sheet and profit and loss account formats. This suggests that a micro-entity is not permitted to include any items in addition to those outlined in the available formats. However, this appears to go beyond the requirements of the micro-entity regulations, which instead state that the 'only items which must be shown' on the company's balance sheet or profit and loss account are those listed in the balance sheet and profit and loss account formats. Proposed paragraphs 2.40 and 2.41 also appear to contradict proposed paragraph 1.2, which states that a micro-entity may choose to provide information additional to the minimum accounting items (see above point). We recommend that these two paragraphs are reviewed to ensure consistency with the micro-entity regulations and to avoid any confusion or unintended consequences.
12. We believe that the proposed amendments, as currently drafted, will not enable a micro-entity to easily identify the applicable disclosure and presentation requirements of the FRSSE 2008. For example, proposed paragraph 1.2 states that a micro-entity preparing its financial statements in accordance with the micro-entity regulations 'shall disregard all presentation and disclosure requirements of the FRSSE.' This is then followed by details of those paragraphs to which this rule does not apply. However, in some cases, it is necessary to cross refer again to later sections of the FRSSE 2008 in order to identify the specific disclosure requirements for a micro-entity.
13. We recommend that the FRC considers alternative ways in which to demonstrate the presentation and disclosure requirements for a micro-entity applying the FRSSE. For example, it might be feasible to include an icon against the relevant requirements or to produce a reduced version of the FRSSE 2008 which includes only the requirements for those applying the micro-entity regulations.

## Other matters

14. The balance sheet formats available under the micro-entity regulations separate 'prepayments and accrued income' from 'current assets' and 'accruals and deferred income' from 'creditors'. While this is consistent with the small companies regime, under the latter, a note to the balance sheet formats specifically permits a small company to include 'prepayments and accrued income' in 'other debtors' and/or 'accruals and deferred income' in 'creditors'. However, there does not appear to be a similar note to the balance sheet formats for a micro-entity. Despite the lack of clarity on this matter in the micro-entity regulations, we believe it is reasonable to assume that a similar provision is intended to be available to micro-entities. Nevertheless, clarification of this matter would be useful. Although we appreciate that this is a matter of company law, the FRC might consider seeking clarification with a view to providing guidance in the amended FRSSE 2008, if appropriate.
15. We note that the amendments do not extend to the current version of the FRSSE applicable to accounting periods beginning on or after 1 January 2015, although early adoption of the FRSSE 2015 is permitted. We understand that this is because the FRSSE 2015 may be withdrawn due to the pending implementation of the new EU Accounting Directive which, if transposed into UK law before the July 2015 deadline, may render the FRSSE 2015 out of date before its effective date. However, it is our understanding that the timetable for the implementation of the EU Directive in the UK is not yet clear and for this reason it would seem appropriate to also apply the proposed amendments to the most recent version of the FRSSE.
16. Proposed paragraph 1.2 includes a cross reference to paragraphs 6.19 to 6.26 with respect to the accounting treatment for investment properties by a micro-entity. This cross reference should in fact be to paragraphs 6.19 to 6.22 in order to exclude the paragraphs relating to the revaluation of tangible fixed assets.
17. Proposed paragraph 2.42(b) refers to 'advances, credits and guarantees'. To be consistent with the heading which appears later in the FRSSE 2008, this should be 'advances, credit and guarantees.'
18. The draft proposals refer to the financial statements 'comprising of only the minimum accounting items' rather than 'comprising only the minimum accounting items'. This appears in the proposed paragraph 15 and paragraph 8 of the Accounting Council's Advice.
19. In our view, the proposed paragraph 37D to be inserted in Appendix IV should read: 'As a result micro-entities will be able to prepare micro-entity accounts in accordance with the FRSSE.'

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