

Technical factsheet

Changes to FRS 102 for small entities (section 1a)

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**Changes to FRS 102 for small entities (section1a)**

*This factsheet should be used in conjunction with ACCA’s model accounts for full FRS 102.*

**Background**

The Financial Reporting Council (FRC) issued a *Consultation Document: Accounting Standards for small entities – Implementation of the EU Accounting Directive* in September 2014 which, inter alia, consulted on the future of accounting standards for small entities and other amendments to accounting standards likely to be necessary as a result of the implementation of the Accounting Directive.

This was followed by FRED 59, *Draft Amendments to FRS 102 – Small entities and other minor amendments*, which was issued in February 2015. These amendments take into account the feedback from both the earlier consultation, in which the FRC indicated strong support for the development of a new section of FRS 102 for small entities, and FRED 59.

These amendments set out the presentation and disclosure requirements applicable to small entities based on the new small companies regime within company law, while the recognition and measurement requirements of FRS 102 will also apply.

In July 2015 amendments were made to FRS 102 to incorporate the new small entities regime and make other amendments necessary to maintain consistency with company law. An entity shall apply the amendments set out in *Amendments to FRS 102 – Small entities and other minor amendments* (the July 2015 amendments) other than the replacement of paragraph 26.15 with new paragraphs 26.15 to 26.15B for accounting periods beginning on or after 1 January 2016.

Early application is:

a. **permitted** for accounting periods beginning on or after 1 January 2015 provided that The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980) are applied from the same date; and

b. **required** if an entity applies The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980) to a reporting period beginning before 1 January 2016.

For entities not subject to company law, early application is permitted from 1 January 2015.

If an entity applies the July 2015 amendments before 1 January 2016 **it shall** disclose that fact, unless it is a small entity, in which case it is **encouraged** to disclose that fact.

**Main features of Section 1a Small Entities**

*Note that, unless otherwise stated, references given are to FRS 102 section1a.*

The main provisions of section 1a are:

The financial statements of a small entity must give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period (section 393 of the Companies Act 2006). Note that this is still an important requirement and referenced in [1A.5 FRS 102](https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicab.pdf).

A small entity may need to provide disclosures in addition to those set out in this section in order to comply with the requirement of paragraph 1A.5, ie to give a true and fair view (see also paragraphs 1A.16 and 1A.17 FRS 102). Clearly the adoption of section 1a means that the minimum requirements may not be enough to give a true and fair view in some cases and so it is recognised that a small entity may need to provide additional disclosure to ensure its financial statements present a true and fair view.

A complete set of financial statements of a small entity **must include** all of the following:

a. a statement of financial position as at the reporting date in accordance with paragraph 1A.12. 1A.12 stating that ‘A small entity shall present a statement of financial position in accordance with the requirements for a balance sheet set out in either *Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations* or *Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations*’

b. an income statement for the reporting period in accordance with paragraph 1A.14. 1A.14 stating that ‘A small entity shall present its profit or loss for a period in an income statement in accordance with the requirements for a profit and loss account set out in either *Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations* or *Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations*’

c. notes to the accounts in accordance with paragraphs 1A.16 to 1A.20. This is highlighted within the notes section of this factsheet.

As with the previous small company exemptions, a cashflow statement is not required.

In addition to the statements required by company law and set out in paragraph 1A.8:

a. when a small entity recognises gains or losses in other comprehensive income it is encouraged to present a statement of total comprehensive income and

b. when a small entity has transactions with equity holders it is encouraged to present a statement of changes in equity or a statement of income and retained earnings.

A small entity may use titles for the financial statements other than those used in this FRS as long as they are not misleading.

**What does this all mean?**

To look at what section 1a actually means in practice, this guide will look at the main financial statements in turn.

*Statement of financial position: available options and their differences to full FRS 102*

As set out in paragraph 1A.12, a small entity should present a statement of financial position in accordance with the requirements for a balance sheet set out in either *Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations* or *Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations*.

This change results in three alternatives:

a. apply the required balance sheet formats as set out in legislation (subject to any permitted flexibility)

b. draw up an abridged balance sheet (see paragraph 1AA.2 below) or

c. adapt one of the balance sheet formats (see paragraphs 1AA.3 to 1AA.6 below).

**Balance sheet**

**Abridged balance sheet**

Section 1AA.2 states that a ‘small entity choosing to apply paragraph 1A(1) of Schedule 1 to the Small Companies Regulations and draw up an abridged balance sheet must still meet the requirement for the financial statements to give a true and fair view. A small entity shall therefore also consider the requirements of paragraph 1A.16 [*A small entity shall present sufficient information in the notes to the financial statements to meet the requirement for the financial statements to give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period*] and provide any additional disclosure that is necessary in the notes to the financial statements, for example in relation to disaggregating the information in the balance sheet.’ Again, the standard points out that adopting its minimum provisions may not automatically give a true and fair view without additional disclosures.

Where appropriate to the circumstances of a company’s business, the company’s directors may, with reference to one of the formats in section B, draw up an abridged balance sheet showing only those items in that format preceded by letters and roman numerals, provided that:

a. In the case of format 1, note 5 (this is the true and fair requirement referred to earlier) of the notes to the formats is complied with.

This relates to the number of debtors falling due after more than one year, which must be shown separately for each item included under debtors unless the aggregate amount of debtors falling due after more than one year is disclosed in the notes to the accounts.

b. In the case of format 2, notes 5 (this is the true and fair requirement referred to earlier) and 10 (this is the requirement for comparatives) of those notes are complied with. This relates to:

* the number of debtors falling due after more than one year, which must be shown separately for each item included under debtors unless the aggregate number of debtors falling due after more than one year is disclosed in the notes to the accounts
* the number of creditors falling due within one year and after one year, which must be shown separately for each of these items and for the aggregate of all of these items, unless the aggregate number of creditors falling due within one year and the aggregate number of creditors falling due after more than one year is disclosed in the notes to the accounts.

c. all of the members of the company have consented to the drawing up of the abridged balance sheet.

The effect of this is that the balance sheet does not have to include many of the standard notes to the balance sheet. But a recurring theme of section1a is the reminder that consent has to be given.

**Adapted balance sheet**

A small entity choosing to apply paragraph 1B(1) of Schedule 1 to the Small Companies Regulations and adapt one of the balance sheet formats shall, as a minimum, include in its statement of financial position line items that present the following, distinguishing between those items that are current and those that are non-current:

a. property, plant and equipment

b. investment property carried at fair value through profit or loss

c. intangible assets

d. financial assets (excluding amounts shown under e, f, j and k)

e. investments in associates

f. investments in jointly controlled entities

g. biological assets carried at cost less accumulated depreciation and impairment

h. biological assets carried at fair value through profit or loss

i. inventories

j. trade and other receivables

k. cash and cash equivalents

l. trade and other payables

m. provisions

n. financial liabilities (excluding amounts shown under l and m)

o. liabilities and assets for current tax

p deferred tax liabilities and deferred tax assets (classified as non-current)

q non-controlling interest, presented within equity separately from the equity attributable to the owners of the parent

r equity attributable to the owners of the parent.

A small entity choosing to apply paragraph 1B(1) of Schedule 1 to the Small Companies Regulations and adapt one of the balance sheet formats shall also disclose, either in the statement of financial position or in the notes, the following sub-classifications of the line items presented:

a. property, plant and equipment in classifications appropriate to the small entity

b. goodwill and other intangible assets

c. investments, showing separately shares and loans

d. trade and other receivables, showing separately amounts due from related parties and amounts due from other parties

e. trade and other payables, showing separately amounts payable to trade suppliers and amounts payable to related parties

f. classes of equity, such as called up share capital, share premium, retained earnings, revaluation reserve, fair value reserve and other reserves.

The descriptions used in paragraphs Adapted balance sheet 1AA.3 and 1AA.4, and the ordering of items or aggregation of similar items, may be amended according to the nature of the small entity and its transactions, to provide information that is relevant to an understanding of the small entity’s financial position, provided that the information given is at least equivalent to that required by the balance sheet format had it not been adapted.

In order to comply with the requirement to distinguish between those items that are current and those that are non-current, a small entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position.

**Profit and loss account**

As set out in paragraph 1A.14, a small entity shall present its profit or loss for a period in an income statement in accordance with the requirements for a profit and loss account set out in either *Part 1 General Rules and Formats of Schedule 1 to the Small Companies Regulations* or *Part 1 General Rules and Formats of Schedule 1 to the Small LLP Regulations*.

This results in three alternatives:

a. apply the required profit and loss account formats as set out in legislation (subject to any permitted flexibility)

b. draw up an abridged profit and loss account or

c. adapt one of the profit and loss account formats.

**Abridged profit and loss account**

Where appropriate to the circumstances of a company’s business, the company’s directors may, with reference to one of the formats in Appendix B to section 1A, *Guidance on adapting the profit and loss account formats*, draw up an abridged profit and loss account, combining under one item called ‘Gross profit or loss’:

a. items 1, 2, 3 and 6 in the case of format 1

This removes the need to show turnover, cost of sales and other operating income separately.

and

b. items 1 to 5 in the case of format 2

This removes the need to show turnover, stock changes, own work capitalised, other operating income and raw materials/other external charges separately,

provided that, in either case, all of the members of the company have consented to the drawing up of the abridged profit and loss account.

**Mix and match**

The company is allowed to decide whether to abridge the balance sheet and the profit and loss account of just one of them.

**Adapted profit and loss account**

A small entity choosing to apply paragraph 1B(2) of Schedule 1 to the Small Companies Regulations and adapt one of the profit and loss account formats shall, as a minimum, include in its income statement line items that present the following amounts for the period:

a. revenue

b. finance costs

c. share of the profit or loss of investments in associates (see section 14 FRS 102, ‘Investments in Associates’) and jointly controlled entities (see section 15 FRS 102, ‘Investments in Joint Ventures’) accounted for using the equity method

d. profit or loss before taxation

e. tax expense excluding tax allocated to other comprehensive income or equity

f. profit or loss.

A small entity may include additional line items in the income statement and it should amend the descriptions used in paragraph 1AB.3, and the ordering of items, when this is necessary to explain the elements of financial performance, provided that the information given is at least equivalent to that required by the profit and loss account format had it not been adapted.

**Notes to the financial statements**

Appendix C to section 1a sets out the minimum level of notes to be included but it makes the clear point that in most cases compliance with the full requirement of FRS 102 will result in compliance with section 1a, so there are few major changes as a result of the new rules.

However, Appendix D to section 1a also states that, where relevant to its transactions, other events and conditions, a small entity is also encouraged to provide the following disclosures:

a. a statement of compliance with this FRS as set out in paragraph 3.3 FRS102, adapted to refer to section 1A

b. a statement that it is a public benefit entity as set out in paragraph PBE 3.3A

c. the disclosures relating to going concern set out in paragraph 3.9 FRS 102

d. dividends declared and paid or payable during the period

e. on first-time adoption of this FRS an explanation of how the transition has affected its financial position and financial performance as set out in paragraph 35.13 FRS 102.

**Summary of options**

For most small entities the options will therefore effectively be:

A Follow FRS 102 as normal but take advantage of the exemption from the cashflow statement.

B Prepare abridged accounts, which cuts down on the number of notes required and also an exemption from the cashflow statement. In particular, companies may like the fact that turnover and cost of sales do not have to be disclosed on the profit and loss account. The members have to give their consent for this to happen.

C Prepare adapted accounts, which potentially give more flexibility than the first two options and also allow the ordering of items or aggregation of similar items to be amended according to the nature of the small entity and its transactions, as long as information is provided that is relevant to an understanding of the small entity’s financial position. However, most small entities may not see any benefit from adopting this approach as the results may be very similar to either A and B above, and would require the disclosure of a revenue figure in the profit and loss account.

**Filing of accounts**

The company’s decision on which version of the accounts they prepare will also be influenced by what information the directors wish to file at Companies House. The new regulations for filing accounts come into effect, although early adoption is possible, for financial years commencing on or after 1 January 2015.

The first major change is that for financial years beginning on or after 1 January 2016, small or medium-sized companies will no longer be able to file abbreviated accounts.

The new regime for small companies is that the accounts that are filed at Companies House would normally be the same as those prepared for the members. The only reminder of abbreviated accounts that remains is that small companies still have the option not to file the profit and loss account and/or the directors’ report at Companies House. This exemption is valid whether full or abridged accounts are prepared for the members. The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (Statutory Instrument 2015/980) amended the Companies Act 2006 such that small companies no longer have the option to file abbreviated accounts at Companies House (for periods beginning on or after 1 January 2016).

The regulations introduce the principle of ‘file what you prepare’ so that small companies may:

* prepare and file full accounts
* prepare and file 'abridged accounts' (All members must agree to the abridgement.)
* use the option (under section 444(1) – this option was first introduced in the CA 2006) not to file the profit and loss account and directors report, ie file only the balance sheet and notes. This is noted below as the (b) ‘may’ option.

The legislation states:

|  |
| --- |
| Companies Act 2006 section 444 Filing obligations of companies subject to small companies regime (amended by Statutory Instrument 2015/980).  1. The directors of a company subject to the small companies regime:  a. must deliver to the registrar for each financial year a copy of the balance sheet drawn up as at the last day of that year, and  b. *may also* deliver to the registrar:  i a copy of the company's profit and loss account for that year, and  ii a copy of the directors' report for that year.  2A Where the balance sheet or profit and loss account is abridged pursuant to paragraph 1A of Schedule 1 to the Small Companies and Groups (Accounts and Directors’ Report) Regulations (SI 2008/409)(2), the directors must also deliver to the registrar a statement by the company that all the members of the company have consented to the abridgement. |

**If a profit and loss account is not filed, which notes can also be omitted?**

FRS 102 section 1A appears to allow notes which relate directly to the omitted profit and loss account to be omitted. However, the downside of this is that notes relating ‘generally’ to the accounts (which may also be related to information in the profit and loss account) would need to be included. Examples of this might be the details of the numbers of average employees and related-party transactions. Hence the filed accounts (even without the profit and loss account being filed) may provide more information than the traditional abbreviated accounts used to.

Remember that all the shareholders have to approve the preparation of abridged accounts each year.

**Reporting**

**Audit report issues**

One further complication relating to abridged accounts is that if they are audited, but the company takes advantage of the exemption from filing a copy of the profit and loss account, a copy of the audit report cannot be attached to the accounts. Hence there is no equivalent any more of the special auditors report which used to accompany the abbreviated accounts. The requirement under the new rules is that the notes to the balance sheet will need to disclose the following information regarding the audit:

5B Those requirements are that the notes to the balance sheet must:

a. state whether the auditor’s report was qualified or unqualified

b. where that report was qualified, disclose the basis of the qualification (reproducing any statement under section 498(2)(a) or (b) or section 498(3), if applicable)

c. where that report was unqualified, include a reference to any matters to which the auditor drew attention by way of emphasis, and

d. state:

i the name of the auditor and (where the auditor is a firm) the name of the person who signed the auditor’s report as senior statutory auditor, or

ii if the conditions in section 506 (circumstances in which names may be omitted) are met, that a resolution has been passed and notified to the secretary of state in accordance with that section.

**Reporting**

[**Factsheet 163**](http://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2009/october/factsheet-163-audit-exempt-companies.html)*Audit Exempt Companies – ACCA Accounts Preparation Report* provides ACCA practising members with guidance on engagements to prepare financial statements for limited companies and other incorporated entities. The guidance outlines the minimum requirements for an accounts preparation engagement and it is not exhaustive of any additional work or procedures that the practitioner might consider appropriate in the context of a specific engagement or that have been agreed with the client. In particular, the factsheet primarily deals with the ACCA accounts preparation report, which is a cross-profession report agreed by the Consultative Committee of Accountancy Bodies (CCAB) aimed at the preparation of accounts of incorporated entities.