

Accounting for Micro-entities in the United Kingdom

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Michelle Sansom

Associate Director & National Standard-setters relations
IASB

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- The European accounting framework
- Overview of the financial reporting framework in the United Kingdom (UK)
- FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*
- Next steps

*The European
accounting framework*

The European accounting framework

**Companies listed on
regulated market**



**IFRS as adopted in the
EU**

Companies with limited liability doing business in the EU, whatever their size, have to prepare annual financial statements and file them with the relevant national business register



Accounting rules - Directive 2013/34/EU

The European accounting framework

- The Accounting Directive allows simplified reporting regime for small and medium-sized enterprises and a very light regime for micro-companies

	Micro	Small	Medium-sized
Balance sheet total	≤ € 350 000	≤ € 6 000 000	≤ € 20 000 000
Net turnover	≤ € 700 000	≤ € 12 000 000	≤ € 40 000 000
Average number of employees during the financial year	≤ 10	≤ 50	≤ 250

- The micro-entities regime was introduced in the EU in 2013
 - Optional framework for entities that meet the qualifying criterion (note: not permitted for charities and financial institutions)
 - Financial statements prepared in accordance with micro-entities regime are **presumed** in law to show a true and fair view
 - EU specifications
 - no fair value
 - no additional disclosures
 - no disclosure of accounting policies

*Financial reporting framework
in the United Kingdom*

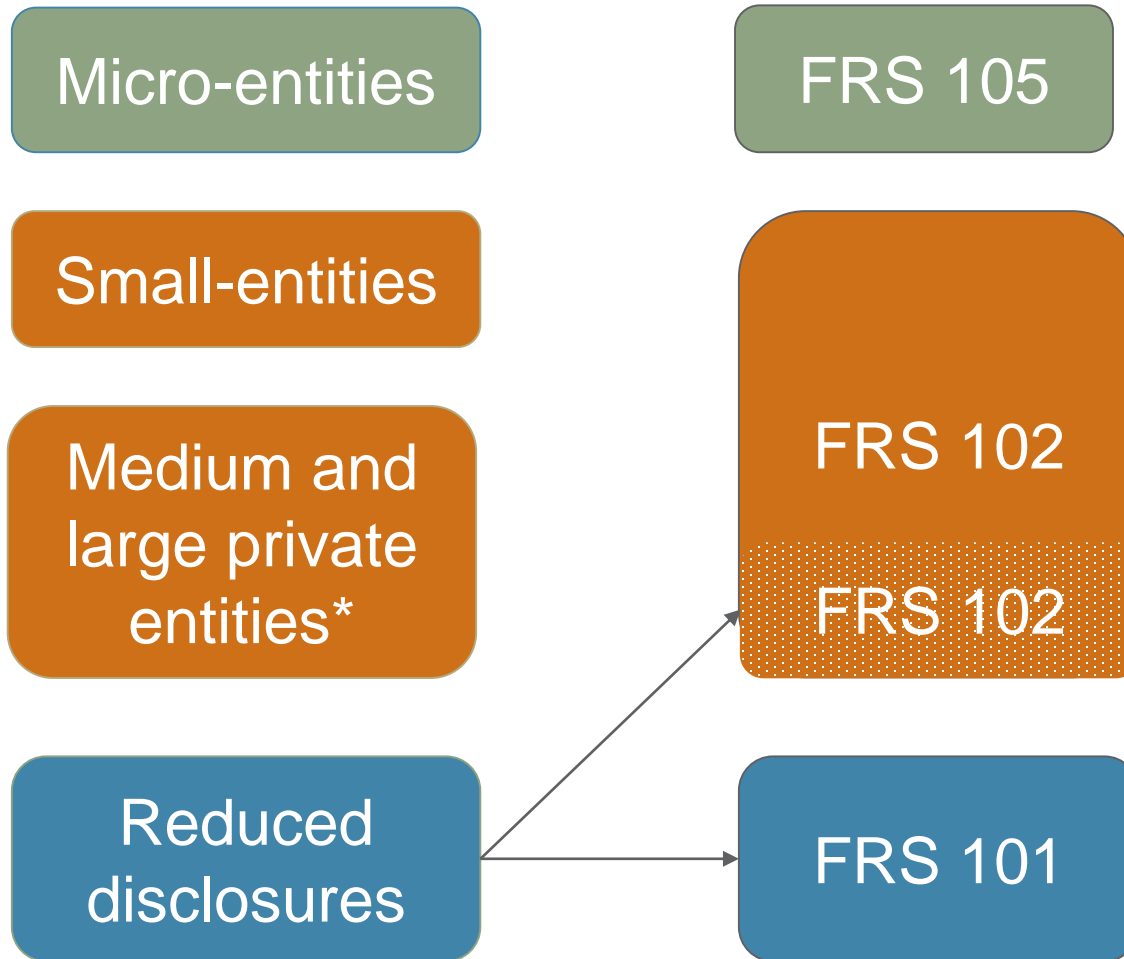
Financial reporting framework in the United Kingdom

- The FRC objective:
To enable users of accounts to receive high-quality understandable financial reporting requirements proportionate to the size and complexity of the entity and users' information needs
- The FRC aims to provide Standards that:
 - are consistent with IFRS
 - reflect up-to-date thinking
 - balance consistent principles with practical solutions
 - create efficiency within groups
 - are cost-effective

Financial reporting framework in the United Kingdom

FRS 100	Application of Financial Reporting Requirements	Provides the financial reporting framework in the UK
FRS 101	Reduced Disclosure Framework	Provides reduced disclosures for parent and subsidiary when group financial statements are prepared applying EU-adopted IFRS
FRS 102	The Financial Reporting Standard applicable in the UK & Republic of Ireland	Based on the <i>IFRS for SMEs</i> sets out financial reporting requirements
FRS 103	Insurance Contracts	Insurance contracts by entities that apply FRS 102
FRS 104	Interim Financial Reports	Interim reports by entities that apply FRS 102
FRS 105	The Financial Reporting Standard applicable to the Micro-entities Regime	Entities that qualify for the micro-entities regime

Financial reporting framework in the United Kingdom



The requirements of each Standard increase in complexity and comprehensiveness

* Where applicable entities also apply FRS 103 and FRS 104

FRS 105
The Financial Reporting Standard
applicable to the Micro-entities Regime

- In developing FRS 105 the FRC:
 - Had to comply with the EU micro-entities regime
 - limited disclosure drove out options
 - limited measurement options
 - Took into consideration the complexity and size of entities able to apply the micro-entities regime

- **Concepts and pervasive principles**

Financial Position

Performance

Assets

Liabilities

Equity

Relationship between
income and expenses

Recognition

Accruals basis

Offsetting

- Subsidiaries, associates, jointly controlled entities
 - ➔ accounted for as financial assets
- Financial assets or financial liability
 - ➔ recognised at cost, cost = transaction price
 - ➔ interest income & expense allocated over contractual term
- Inventories
 - ➔ measured at lower of cost and estimated selling price

- Property, Plant and Equipment and Investment Property
 - ➔ Initial recognition at cost
 - ➔ Subsequently at cost less depreciation & impairment
- Intangible assets
 - ➔ Recognise separately acquired intangibles at cost
 - ➔ Internally generated not recognised
- Goodwill
 - ➔ Recognised at cost and amortised

- Government grants



Recognised when micro-entity has reasonable assurance that will comply with the conditions of the grant & grant will be received



Measured at fair value of asset received



Accrual model for recognition

- Share-based payment



No accounting for equity-settled share-based payments

- Employee benefits



Defined benefit plan – liability for agreed contributions to fund a deficit only

- Income tax



Deferred tax not recognised

- Foreign currency translation



No distinction between functional and presentation currency



Permits forward rate to be used

FRS 105 simplifications from FRS 102

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- FRS 102 **based** on *IFRS for SMEs*
- Key simplifications:
 - Deferred tax
 - Equity-settled share-based payments
 - Defined benefit plans
 - Foreign currency translation
 - Borrowing costs and development costs expensed
 - Prohibition to recognise intangible assets in a business combination
 - Simplification of effective interest rate method
 - Hyper-inflation
- Out of scope
 - Consolidated financial statements

<ul style="list-style-type: none"> • Relief from: 	
- Cash Flow statement	✓
- Changes in equity	✓
- Consolidated results	Not applicable
<ul style="list-style-type: none"> • Simplifications for: 	
- Fair value	✓
- Biological assets (harvested)	Measured at lower of cost and estimated selling price less cost to complete and sell
- Leases	✗

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