

Corporate update—May 2009



Small company reporting issues – Companies Act 2006, FRSSSE and IFRS developments

Statutory framework

The new requirements for company accounts enacted by Part 15 of the Companies Act 2006 ('CA 2006') apply to all accounting periods commencing on or after 6 April 2008. Accounting periods commencing before this date are covered by the Companies Act 1985.

For companies which qualify as small, relatively few changes have been introduced by CA 2006, the main points of note being:

- An increase in the thresholds for qualifying as a small company:
 - turnover increased to £6.5m from £5.6m; and
 - gross assets increased to £3.26m from £2.8m
- A change in the definition of an ineligible group (see below).

Introduction to Financial Reporting Standard for Smaller Entities ('FRSSSE')

Developed specifically with the needs of smaller entities in mind, the FRSSSE

is a non-mandatory accounting standard that simplifies the requirements of accounting standards and Urgent Issues Task Force (UITF) abstracts. It also incorporates the requirements of Companies Act legislation that apply to small company accounts.

As the disclosure requirements set out in the full accounting standards are designed to cover a broad spectrum of entity, a number of these requirements have been removed in the FRSSSE in order to make the level of disclosures more relevant to the complexities of the businesses involved.

In order to take account of changes in accounting standards and legislation, the FRSSSE is periodically updated, the application date of each version being incorporated into the title of the document.

Use of the FRSSSE

As mentioned above, the use of the FRSSSE for eligible companies is not compulsory. Those companies which choose to adopt the FRSSSE are exempt from the requirements of all of the other standards and abstracts. Eligible companies that choose not to adopt the FRSSSE must apply the other relevant standards and abstracts in full.

There have been several versions of FRSSSE over the years, with the latest being FRSSSE (Effective April 2008) ('FRSSSE 2008'). This version is applicable for all periods commencing on or after 6 April 2008 and, as this is the commencement date for Part 15 of the Companies Act 2006, early adoption is not permitted.

For accounting periods commencing on or after 1 January 2007 but before 6 April 2008, eligible companies should use FRSSSE (Effective January 2007) ('FRSSSE 2007'), although early adoption is allowed.

The recent changes to group eligibility introduced by CA2006 mean that more small companies may be able to adopt the FRSSSE where the group contains an overseas company. Groups that were previously ineligible should therefore reassess their position in light of the changes to determine if the UK companies now qualify for FRSSSE adoption.

FRSSE (Effective April 2008)

FRSSE 2008 is a limited amendment to FRSSE 2007 specifically to reflect the statutory requirements for small companies under the Companies Act 2006.

Changes in FRSSE 2008

The main change introduced has been to reflect the requirements of the

Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (the Small Company Regulations). The legislative changes were largely a tidying-up exercise and so there were few substantive changes to the law governing small company accounts, although a change in language from small companies 'shall' in the 1985 Act to 'must' in the 2006 Act is of note.

The thresholds for qualifying as a small company reflect those in the Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008.

The main practical changes can be summarised as follows:

Issue	Change	Reference
1. Authorised share capital	CA 2006 effectively abolished the concept of authorised share capital. The requirement for disclosure of this has therefore been removed.	
2. Directors' interests	The requirement for the disclosure of directors' interests in the directors' report was abolished for all reports approved on or after 6 April 2007. The requirement has therefore been removed from FRSSE 2008.	
3. Limitation of auditors' liability	Any small company entering into a limitation of liability agreement with its auditors must now disclose details of the agreement in its financial statements.	FRSSE 2008 2.39
4. Donations	Requirements to disclose information in respect of donations in the directors' report apply to the following categories – note, those disclosures marked * were not previously required under FRSSE 2007: <ul style="list-style-type: none"> • Charitable donations; • Political donations; • Political expenditure*; and • Donations to independent election candidates*. <p>Where the aggregate amount of transactions for charitable or political purposes exceeds £2,000 (previously £200), those aggregate amounts should be disclosed for the two categories separately.</p>	FRSSE 2008 18.7-18.9
5. Group accounts	Small groups are still exempt from the necessity of preparing group accounts. However, if a small group wishes to voluntarily prepare consolidated accounts, the Small Company Regulations includes the form and content to be applied. In accordance with this, FRSSE 2008 now contains the requirement for the consolidated accounts to show details of directors' benefits.	FRSSE 2008 16.5

Table showing the main practical changes in FRSSE 2008

Small companies and International Financial Reporting Standards ('IFRS')

Although there is no European or UK legal requirement for small companies to apply IFRSs, they may apply them, as adopted by the European Union, if they wish. In choosing to do so, a small company must adopt all of the relevant standards in full. This does, however, look set to change in the future (see below).

Future developments

The International Accounting Standards Board ('IASB') published an Exposure Draft ('ED'), *International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)* in February 2007. This recognised that IFRSs are aimed at

meeting the needs of providers of capital in companies on capital markets and so are broader in scope and generally more detailed than many SMEs require.

The ED also acknowledged the high cost of preparing full IFRS accounts for SMEs. With this in mind, there is a need to balance the needs of the users with the cost and benefits for the preparers.

The ED was available for comment until the end of November 2007.

With the closure of the review period, the project team at the IASB has amended the ED in light of comments received. In response to some concerns regarding the nature of the companies expected to apply the ED, the IASB changed the name

to '*IFRS for Private Entities*' in May 2008 and subsequently to '*IFRS for Non-publicly Accountable Entities*' (IFRS for NPAEs) in January 2009.

The April edition of *Inside Track*, a publication by the Accounting Standards Board ('ASB'), commented that in March 2009, the IASB decided unanimously that re-exposure of the draft was not required and that the IFRS standard would be published by the end of June 2009, with the possibility of a final name change.

Now that the IASB appears likely to publish the IFRS for NPAEs, the ASB is in a position to move to finalise its consultation paper on the future of UK GAAP. The intention is that this consultation paper will be published by the end of July 2009.

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