

# FRS 105 the Micro entities Regime



Presentation for  
**SAGE IRELAND**  
by  
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# Caveat – this is not the law yet

- The **Companies (Accounting) Bill 2016** is now being debated in the Dáil and will go through the Seanad
- It has to pass through 5 stages in each house
- Could be law by Christmas 2016
- Could be back-dated to 1 January 2016 with early adoption allowed as at 1 January 2015
- All could change!!

# Contents

- The **Companies (Accounting) Bill 2016** including the size and eligibility criteria for small and micro companies
- Will legalise **Section 1A to FRS 102** reduced information in small company financial statements
- Will legalise **FRS 105** dealing with micro company financial statements
- What hasn't changed
- Making a smooth transition into the new regime

# Companies (Accounting) Bill 2016

- Accounting law – 4<sup>th</sup> and 7<sup>th</sup> directives: transposed CA(A) '86 and GAR '92 respectively
- 2009 – EU update to company law – reduce red tape burden “Think small first”
- On Dáil legislative agenda since 2013 to transpose EU directive 2013/34/EU of 26th June 2013 on the annual company and consolidated financial statements:
  - Applies to accounting periods beginning on or after **1 January 2016**
  - Prescribed date for transposition: **20 July 2015**

# Companies (Accounting) Bill 2016

- Bill is also expected to correct a number of unintended technical errors in the 2014 Act meeting the criteria of urgent or critically important
- Being debated in the Dáil 2/3 November and 10 November 2016
- Published 3 August 2016
- Bill = 162 pages
- Explanatory Memo - 11 pages

# Companies (Accounting) Bill 2016

- Micro entities regime
- Micros will not have to file Directors' Report
- Changes size thresholds
- Medium sized companies will have to file full financial statements as Section 354 of CA 2014 will be deleted from Irish company law
- At present medium companies don't need to disclose certain matters including their turnover

# Timely transposition of EU Directives?

## ➤ EU:

➤ **February 2012:** Directive EU/12/6/EU gives Member States the option to have micro companies

➤ **June 2013:** Accounting directive

## ➤ United Kingdom:

➤ **December 2013:** Small Companies (Micro- Entities' Accounts) Regulations 2013 (SI 2013/3008) for financial years ending on or after 30th September 2013

➤ **April 2015:** EU accounting directive transposed into UK law

# EU directive 2013/34/EU of 26th June 2013 (as amended)

- Removes profit and loss accounts Formats 3 and 4
- Restricts the information that can be required in small company financial statements but must still give a true and fair view
- Reflects the micro company regime – a Member State option since 2012






# EU directive 2013/34/EU of 26th June 2013 (as amended)

- Eliminates the current exemption from filing financial statements for unlimited companies with a non-EU/EEA shareholding structure
- Introduces country by country reporting – extractive and logging industries
- Extends audit opinion on consistency of directors' report and the financial statements
- Companies (Accounting) Bill, 2016 based on this

# Size thresholds in the Bill

Must not exceed two out of three

Annual Threshold	Turnover € 	Total Assets €	Average Employee No.	Annual Threshold 
Small	8m - 12m 	4m - 6m	50	Small
Medium	40m	20m	250	Medium

Need at least two of these thresholds in two consecutive years to qualify and, once qualified, must exceed at least two of these thresholds for two consecutive years to exit



Pro-rated for financial periods less than a year

# FRC's response to UK's transposition of directive



## Section 1A to FRS 102 and FRS 105

- 16 July 2015 FRC issued revised standards reflecting UK's transition of the EU accounting directive: **so at the moment not available for use in Ireland:**
- **FRS 102 Section 1A Small Entities**
- **FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime**
- FRSSE(2015) withdrawn for periods commencing on or after 1 January 2016
- All of the amendments are applicable in the UK for periods beginning on or after 1 January 2016, with early adoption required if and only if the UK entity is early adopting the April 2015 UK Accounting Regulations (or from 1 January 2015 if the UK entity is not subject to UK company law)
- The recognition and measurement requirements of Section 1A are the same as those set out in the rest of FRS 102

# Post Companies (Accounting) “Act” 2016

Impact on small company financial statements for 2016

- Companies Accounting Act 2016 is passed and effective in law and assuming the EU directive is transposed into Irish law with similar Member State options taken as happened in UK then a small company will have the choice of several accounting regimes when preparing its annual statutory financial statements for periods commencing on or after 1

January 2016:

- IFRS
- FRS 102 in full
- FRS 102 section 1A *Small entities*

# Post Companies (Accounting) “Act” 2016

## Impact on small company financial statements for 2016

- If the small company is a “qualifying entity” it may also avail of the disclosure reductions in FRS 102
- If the small company also meets the conditions of a “micro” company it has a further choice of adopting FRS 105. Small (including micro) company filing not impacted: balance sheet plus required notes
- Companies availing of the “small entities” regime are required to consider whether the resulting “reduced” financial statements give a true and fair view

# Post Companies (Accounting) “Act” 2016

## Impact on small company financial statements

### FRS 102 Section 1A Small entities

- Small entities must apply the recognition and measurement requirements of FRS 102 in full but are subject to different presentation and disclosure requirements.
- Section 1A sets out the minimum content elements that a small entity must include in its financial statements:
  - a balance sheet (which it terms: Statement of Financial Position);
  - a profit and loss account (which it terms: Income Statement); and
  - notes that include the disclosures required by law.

# Post Companies (Accounting) “Act” 2016

## Impact on small company financial statements

- However, the financial statements of a small entity must also include any extra disclosures necessary for them to give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity for the reporting period.
- Section 1A and its appendices provide extensive guidance for directors on the additional disclosures that may be necessary to meet this requirement.

# Formats for financial statements

Alphabetic and Roman numerals appear in form and order prescribed; Arabic format may be combined or adapted

## Full FRS 102

- Alphabetic
  - Roman numerals
  - Arabic numbers

### B. Fixed Assets

#### I. Intangible

#### II. Tangible

1 Land and buildings

2 Plant and machinery

3 Fixtures, fittings and equipment

4 Payments on account and assets in the course of construction

## Section 1A Small entity

- Alphabetic
  - Roman numerals

### B. Fixed Assets

#### I. Intangible

#### II. Tangible

III. Investments



# Formats for financial statements

## Section 1A *Small entity*

- Alphabetic
  - Roman numerals

### C. Current Assets

#### I Stocks

#### II Debtors

amounts falling due within one year

amounts falling due after more than one year

#### III. Investments

#### IV. Cash at bank and in hand

# Post Companies (Accounting) Act, 2016

## Small company financial statements

- Accounting policies (information about judgements “may be useful to users”)
- Fixed assets movements – amortisation, depreciation, impairment
- Revaluation table and supporting information
- Fair value table and supporting information

# Post Companies (Accounting) Act, 2016

## Small company financial statements

- Indebtedness and security
- Guarantees and financial commitments
- Off balance sheet arrangements
- Exceptional items

# Post Companies (Accounting) Act, 2016

## What will a 'small' company financial statements look like?

- Average number of employees
- Post balance sheet events
- Advances and credits granted to directors
- Material transactions with specified related parties
  - MUST DISCLOSE
    - Not under normal market conditions =
    - Under normal market conditions = MAY
- If a subsidiary, details of parent of smallest group drawing up group accounts
- Statutory information – company type; registered office

Appendix D to section 1A “encourages” other disclosures. Practitioners will require to use judgement to ensure the financial statements of small entities give a true and fair view notwithstanding the reduced legal disclosures

# Post Companies (Accounting) “Act” 2016

## What will a ‘small’ company financial statements look like

- Voluntary regime – directors opt in: shareholders’ approval not required
- If opt-in to micro regime:
  - Exempt from the requirement to prepare a directors’ report
  - Micro-companies' financial statements are only legally required to provide a truncated profit and loss account and a truncated balance sheet with
  - minimal note disclosure: only two items –
    1. Directors’ benefits: advance, credit and guarantees
    2. Guarantees and other financial commitments
- and are automatically presumed to give a true and fair view by doing so

# Post Companies (Accounting) “Act” 2016

## What will a small company financial statements look like?

- Reduced disclosure in ‘Micros’ welcome for some as directors’ remuneration disclosure is not required
- If comply with the ‘micro’ requirements, financial statements are automatically presumed to give a true and fair view – in contrast the financial statements of ‘small’ companies taking the reduced regime in section 1A FRS 102 are still required to give a true and fair view
- Potential complications if preparing ‘micro’ financial statements and depart from the legally required minimum
- Various conditions to be a ‘micro’ company including size thresholds.

# 'Micro' size thresholds in the Directive

Must not exceed two out of three

Annual Threshold	Turnover €	Total Assets €	Average Employee No.
Micro	700k	350k	10
Small	8m - 12m	4m - 6m	50
Medium	40m	20m	250

Must meet at least two of these thresholds in two consecutive years to qualify, once qualified, must exceed at least two of these thresholds for two consecutive years to cease to exit

 Pro-rated for financial periods less than a year

# Significant differences between FRS 105 and FRS 102

- FRS 105 is based on FRS 102 adapted to reflect the simpler nature of the legal requirements for the financial statements of micro-companies
- Micro-companies are only required to prepare a balance sheet and profit and loss account and not any of the other primary statements required for larger companies i.e. no STRGL; no cash flow
- No assets can be measured at fair value or a revalued amount
- Long term financing at face value



# Significant differences between FRS 105 and FRS 102

- No deferred tax or equity-settled share-based payments are recognised
- All of the accounting policy choices set out in FRS 102 are removed - all borrowing and development costs must be expensed by micros.
- Accounting for financial instruments simplified

# Micro-entities: FRS 105 can give different numbers to FRS 102

## Financial instruments accounting much simplified under FRS 105

- Investments are measured at costs less impairment (never fair valued)
- Loans at below market interest rates: measured at nominal amount
- Bad debts recognised when probable debtor will enter bankruptcy or other financial reorganisation

# Micro-entities: FRS 105 can give different numbers to FRS 102

- Simplified treatment for derivatives: cash basis/onerous contracts
- When micro-entities enter into foreign currency forward contracts they are required to use contracted rates to translate foreign currency denominated assets and liabilities rather than spot rates.
- Immaterial finance costs expensed to p/l immediately
- Material finance costs added to financial asset (deducted from financial liability) and recognised in p/l over the term of the contract on a straight line

# Significant differences between FRS 105 and FRS 102

➔ Where settlement is deferred beyond normal credit terms - difference between cash price and transaction price, it is treated as interest and recognised in P&L on a straight line basis

EG: On 1 January sell a good sold to a customer for €10,000 for payment in two years. Normal cash price (30 days credit) €8,000. Recognise €8,000 as sale and debtor and assuming a 31 December reporting date, then accrue €1,000 interest annually

➔ No disclosures required of any transition adjustments or reconciliations

# Significant differences between FRS 105 and FRS 102

- The statutory formats for the balance sheet and profit and loss accounts are significantly condensed, for example “current assets” is not disaggregated into stocks, debtors, investments and cash.
- Even if meet the size criteria a company may be excluded from the micro company regime....

***NB: above not exhaustive***

# Micro-entities excluded from FRS 105

- Any companies excluded from the small companies regime
- Financial institutions including credit and insurance institutions
- Charities
- Small parent companies that choose to prepare group financial statements
- Companies that are not parent companies but their financial statements are included in group financial statements
- Reporting entities that are **not companies** but would be micro if incorporated
- FRC neither explicitly permits or prohibits the application of FRS 105

# Micro-entities: FRS 105 can give different numbers to FRS 102

**Transitioning to the micro-company regime will require thought**

Complexity of transition will depend on the circumstances: e.g.

Company with an investment property – under FRS 102 for its  
31 December 2015 year end

Investment property will be stated at fair value with a provision for the deferred tax on any capital gain. If that company qualifies as a 'micro' and chooses to adopt FRS 105 for its 2016 financial statements, it will have to revert to depreciated cost and reverse the deferred tax provision

# Micro-entities: FRS 105 can give different numbers to FRS 102

- To transition: reverse out fair value and related deferred tax provision under FRS 102. Obtain original historical cost and analyse between land and buildings. Land is not depreciated. Calculate accumulated depreciation on buildings element having estimated its useful economic life
- Note the date of transition to FRS 105 will be the first day of the comparative period. For calendar year end reporters: 1 January 2015
- Holiday pay accrual requirement spelled out in FRS 105 – accrue paid annual leave (accumulated compensated absences) as the employee earns the right to the leave
- Financial instruments accounting much simplified under FRS 105



# What does a micro set of financial statements look like?

## **FRS 105 para 3.9:**

A complete set of financial statements of a micro-entity shall include the following:

- a) a statement of financial position as at the reporting date with notes included at the foot of the statement;

and

- b) an income statement for the reporting period

# Formats for financial statements

Alphabetic and Roman numerals appear in form and order prescribed; Arabic format may be combined or adapted

Full FRS 102	Section 1A Small entity	Micro FRS 105
<ul style="list-style-type: none"> <li>Alphabetic                             <ul style="list-style-type: none"> <li>Roman numerals</li> <li>Arabic</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Alphabetic                             <ul style="list-style-type: none"> <li>Roman numerals</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Alphabetic only</li> </ul>
<p>B. Fixed Assets</p> <p>I. Intangible</p> <p>II. Tangible</p> <p>1 Land and buildings</p> <p>2 Plant and machinery</p> <p>3 Fixtures, fittings and equipment</p> <p>4 Payments on account and assets in the course of construction</p>	<p>B. Fixed Assets</p> <p>I. Intangible</p> <p>II. Tangible</p> <p>III. Investments</p> <p>Shareholder approval required to adopt</p>	<p>B. Fixed Assets</p> <ul style="list-style-type: none"> <li>No movements note required</li> </ul> <p>Shareholder approval NOT required to adopt</p>

# What does a micro set of financial statements look like?

## Profit and loss account for the year ended 31 December 2016

	2016	2015
	€	€
Turnover		
Other income		
Cost of raw materials and consumables		
Staff costs		
Depreciation and other amounts written off assets		
Other charges		
Tax	_____	_____
Profit or loss	=====	=====

# What does a micro set of financial statements look like?

<b>Balance Sheet at 31 December 2016</b>	<b>2016</b>	<b>2015</b>
	<b>€</b>	<b>€</b>
Fixed assets	_____	_____
Current assets		
Prepayments and accrued income		
Creditors: amounts falling due within one year	_____	_____
Net current assets (liabilities)	_____	_____
Total assets less current liabilities		
Creditors: amounts falling due after more than one year		
Provisions for liabilities		
Accruals and deferred income	_____	_____

# Micro set of financial statements

## Balance Sheet at 31 December 2016 continued

### Notes

#### 1 Directors' benefits: advance, credit and guarantees

During the year an advance of €X was made to a director and was subsequently fully repaid to the company.

#### 2 Guarantees and other financial commitments

The company has received a statement of claim for €y in relation to an alleged breach of contract. No provision has been made as our solicitor advises that there has been no breach of contract and the company will not be required to pay any amount in this regard.

*NB: standard legend<sup>1</sup> required for audit exempt company also to appear at foot of balance sheet along with approved on [date] and signed by [director] on behalf of the board:*

\_\_\_\_\_  
[State Name] Director

# What hasn't changed

## Regardless of 'micro' size:

- Other than for the content of the annual statutory financial statements, all laws still apply including all of company law and all of tax law
- Still must file tax returns for all applicable heads of tax – VAT; USC/PAYE/PRSI; CT etc.
- Accounting analysis still required for tax purposes
- Appropriate accounting records must be maintained
- Must still file with CRO
- Micro regime leaves all other laws intact

# In practice for a micro: FRS 102 or FRS 105?

## Choices

- Micro regime is an **option** for those meeting the conditions – it is not mandatory
- FRS 105 attractive as it avoids some of the complexities of FRS 102
- Unless the micro has certain financial instruments, an investment property or revalues fixed assets, it most likely will not have significant accounting policy changes in moving to FRS 105
- However if 'micro' close to thresholds and has significant expansion plans (wants to borrow externally) a move to FRS 105 might not be merited
- Regime particularly suits situations where there is one shareholder/director and no outside finance

# Take Care!

## Which version of FRS 102 applies today?

- The **September 2015** version of FRS 102 reflects the changes made in July 2015 to reflect UK law (prior to this, it was the August 2014 version),. This is the one applicable here right now.
- Irish law has yet to be updated – latest Bill being debated
- So the Sept. 2015 changes are not yet available here
- EG: September 2015 version – section 7 statement of cash flows gives an exemption from the preparation of cash flow statements to ‘small’ companies.
- Irish company cannot take advantage of that exemption yet



# Watch out!

## Which version of FRS 102 applies today?

- Note an Irish “qualifying entity” may choose to take the disclosure reductions in section 1 of FRS 102
- Alternatively the Irish entity if it meets the conditions can adopt FRSSSE (2015) which does not require a cash flow.
- Version to use today: **FRS 102 issued 22 August 2014** and if relevant adjust for; the pensions obligation amendment issued February 2015; the editorial amendments (affects section 12 and 29) issued 16 April 2015; amendment in share based payment transactions with cash alternatives issued in

# Conclusion

- **Companies (Accounting) Bill 2016** expected soon!
- May be back-dated to 1 January 2015
- **FRS 102 (September 2015)** reflects updated regime not yet applicable in Ireland, so look to August 2014 version plus “amendments” where relevant
- **Section 1A to FRS 102 (September 2015) “small entities”** - reduced information in small company financial statements will come soon
- **FRS 105** deals with micro company financial statements
- Start planning now for a smooth transition into the new regime – check software is compliant

# Services

- FRS 102 Transition Consulting
- Audit whole firm/hot file and cold file reviews
- Preparation for Regulatory Body monitoring visit
- Anti-Money Laundering compliance and training
- Accounting/audit technical
- Insolvency compliance reviews
- Practice management

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