

FINANCIAL REPORTING FRAMEWORK COMPARISON – AN OVERVIEW

	Micro entities – FRS 105	Small entities – FRSSE 2015	Small entities – FRS 102 section 1A	Non-small entities – FRS 102
Qualifying Criteria (meet 2 out of 3, for 2 consecutive years)	Turnover ≤ £632k Gross assets ≤ £316k ¹ Employees ≤ 10	Turnover ≤ £6.5m Gross assets ≤ £3.26m ¹ Employees ≤ 50	Turnover ≤ £10.2m Gross assets ≤ £5.1m ¹ Employees ≤ 50	If don't meet small entity criteria.
Effective Date	Periods starting on / after 1 January 2016. Early adoption permitted for periods ending on/after 30 September 2013.	Periods starting on / after 1 January 2015. Early adoption permitted for periods starting on/after 1 January 2013. PLEASE NOTE: for accounting periods commencing on/after 1 January 2016, FRS 102 section 1A will apply, therefore restricting the use of FRSSE 2015 to one year.	Periods starting on / after 1 January 2016. Early adoption permitted for periods starting on/after 1 January 2015. <i>e.g. for a March year end, the first period mandatorily impacted is 31/03/17.</i>	Periods starting on / after 1 January 2015. Early adoption permitted for periods ending on/after 31 December 2012.
Transition Date	Opening day of the comparative period (e.g. for a 31/12/16 year end, transition date is 01/01/15. For a 30/06/17 year end, transition is 01/07/15).	N/A – No significant transitional impact except for intangibles.	Opening day of the comparative period (e.g. for a 31/12/16 year end, transition date is 01/01/15. For a 30/06/17 year end, transition is 01/07/15).	Opening day of the comparative period (e.g. for a 31/12/15 year end, transition date is 01/01/14).

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Measurement and Recognition Basis	<p>Predominately FRS 102, however:</p> <ul style="list-style-type: none"> • accounting for deferred tax is prohibited; • revaluations are not permitted; • development costs and interest on self-constructed assets cannot be capitalised; • government grants have to be accounted for under the performance method; • No requirement to FV account (however, amortised cost is still required); • accounting for equity-settled share-based payments is prohibited; • defined benefit pensions are accounted for on a defined contributions basis. 	<p>Per old FRSSE, other than:</p> <ul style="list-style-type: none"> • useful economic life of intangible asset is 5 years maximum unless a longer period can be justified; and • change to related party group disclosure exemptions to bring them in line with full “old” GAAP. 	FRS 102	FRS 102

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Content of Financial Statements	<ul style="list-style-type: none"> • Profit & Loss Account (specific format) • Balance Sheet (main headings only) • 2 notes (Directors advances, credits and guarantees, and Financial commitments) • NB: Directors’ Report NOT required 	<ul style="list-style-type: none"> • Directors’ Report • Profit & Loss Account • Balance Sheet • All existing notes 	<ul style="list-style-type: none"> • Directors’ Report • Profit & Loss Account • Balance Sheet • 13 specific notes required by law • Other primary statements and notes recommended (to show true and fair view) 	<ul style="list-style-type: none"> • Directors’ Report • Strategic Report • Balance Sheet • Statement of Comprehensive Income • Statement of Cash Flows • Statement of Changes in Equity • All notes
Filing Requirements (Also see Section 444 exemptions below)	Full financial statements	Full financial statements or abbreviated accounts	As approved by members, so either: <ul style="list-style-type: none"> • Full financial statements; or • Abridged accounts (as full, but P&L account starts from Gross Profit and balance sheet is main headings only); or • Small company filing options under section 444 	Full financial statements
S444 Exemption Available (to not file Directors’ Report and/or Profit And Loss Account and related notes)	“Yes”	Yes	Yes	No ⁴

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Statutory Audit Required ²	No NB: ISA (UK) 210 implies that an audit cannot be carried out if FRS 105 is adopted.	No	No NB: If entity early adopts the new size criteria (in order to qualify as small), an audit will be required for that year.	Yes
Scoped Out	<ul style="list-style-type: none"> Charities Subsidiaries that are included in a consolidation; Any non-qualifying entities; Entities that voluntarily consolidate. 	<ul style="list-style-type: none"> Any non-qualifying entity. 	<ul style="list-style-type: none"> Any non-qualifying entity. 	Fully listed entities and AIM/ISDX companies that consolidate.
Benefits	<ul style="list-style-type: none"> Minimal disclosure in the public domain; Simple to prepare; Automatically deemed to show a true and fair view; No need to revalue investment properties; Fair value accounting avoided as is the need to account for equity-settled share-based payments, deferred tax etc. 	<ul style="list-style-type: none"> No significant change from FRSSE (2008); Familiar; Gives entities the chance to get used to the idea of a new framework. 	<ul style="list-style-type: none"> Limited disclosure; Uses <u>full</u> FRS 102 principles for measurement and recognition. 	<ul style="list-style-type: none"> Easier to use than IFRS!; Far less consolidation adjustments when consolidating into IFRS accounts (compared to old GAAP).

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Disadvantages	<ul style="list-style-type: none"> Accounting still primarily based on IFRS; More information will need to go into the tax computation; Maybe commercially damaging to credit ratings and not fit for purpose when potential financiers, suppliers and customers review them; Amortised cost calculations still needed; “Unpopular” P&L format; Could be difficult to justify fees; May have to produce supplementary management information; Cannot be audited. 	<ul style="list-style-type: none"> Shelf life of one year; Delaying the inevitable; Lacking modernity. 	<ul style="list-style-type: none"> FRS 102 measurement principles without modification, thus challenging; The limited disclosures required by law might conflict with the overarching requirement for these financial statements to give a true and fair view; Related party transactions which are not on normal commercial terms will be put on public record. 	<ul style="list-style-type: none"> Full application of FRS 102; Full disclosure required; Related party transactions will be put on public record.

SUPPORTING NOTES

1. For the avoidance of doubt, “Gross assets” means Fixed assets plus current assets.
2. The consideration as to whether the entity requires an audit only considers the size of the company above. If an entity is part of a group, users need to consider the size of the group worldwide and the presence of any ineligible entity in the group to determine whether the entity is exempt from audit.
3. Please note that this summary does not take into account the possibility of using FRS 101 nor IFRS.
4. Small entities are not prevented from using full FRS 102. However, this summary assumes that small entities will take advantage of one of the available small company reporting frameworks. If a small entity adopts full FRS 102 voluntarily, the section 444 exemption would still be available.
5. There are a number of transitional exemptions (which are extended further for small entities) which may be beneficial to entities making the transition to first time adoption of FRS 102 (including Section 1A). Please refer to paragraphs 35.10 of FRS 102 for details.

The summary assumes that readers have prior knowledge of FRS 102 and the changes to the UK accounting landscape and cannot repeat all of the specific differences and challenges that entities will face; the schedule has been produced to provide a quick reference synopsis that can be used when discussing the forthcoming changes with clients.

As is always the case with high level summaries, this schedule should not be considered a substitute for reading the relevant Standards nor for attending relevant CPD updates.

To this end, should you require any further information about FRS 102 or the changes to the small company reporting framework, please consider attending one or more of the following CPD courses:

- A Practical Guide to FRS 102 – What does it mean for me?
- Small Company Financial Reporting
- Micro Entities and FRS 105

More details can be found here: <http://www.hatgroup.co.uk/cpdcourses.php>

Should you have any questions regarding the implementation of the new Standards, please speak to a member of our technical team.