Summary of Recent UK Changes to Financial Reporting Standards

The transformation of United Kingdom Generally Accepted Accounting Practice (UK GAAP) was completed on 16 July 2015, when the Financial Reporting Council (FRC) issued an update to FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and a new FRS 105 standard - 'The Financial Reporting Standard applicable to the Micro entities Regime'.

All companies across the UK and Republic of Ireland will now report under an international based reporting framework. This was not unexpected, it has been the result of several years work, but the implementation of the EU Accounting Directive into UK law with effect from 6 April 2015 forced the FRC into fast tracking the proposals.

So what is affected and when do they become applicable?

FRS 102 was originally published in March 2013 and applies to those companies that are not small, and are not listed on a recognised stock exchange. It is effective for accounting periods ending on or after 31 December 2015 although early adoption is permitted.

In addition to some further amendments to the original document,the recent update to FRS 102 includes a separate section for companies that are defined as small, with reduced disclosures being required, replacing the Financial Reporting Standard for Smaller Entities. Companies that qualify as micro-entities may instead adopt the requirements of FRS 105.

Both of these become effective for accounting periods commencing on or after 1 January 2016, in most cases one year after their larger counterparts, although can be adopted earlier as long as the accounting period commences after 1 January 2015.

So how do you define a small company?

Following the issue of SI 2015/980 The Companies, Partnerships and Groups (Accounts and Reports) Regulation 2015, a company must meet 2 out of 3 of the following conditions for two successive years for periods commencing on or after 1 January 2016:

Turnover less than £10.2m (previously £6.5m)
Balance Sheet total (gross assets) less than £5.1m (previously £3.26m)
Employees less than 50

Directors can apply this for years commencing on or after 1 January 2015 if as a result the company ends up as small.

The thresholds at which companies require an audit have not changed.

Other changes arising from the Statutory Instrument are:

- Reducing the number of notes that are required in a small company set of accounts.
- Introducing the option of preparing abridged accounts for shareholders.
- Removing the option to file abbreviated accounts, although accounts filed with the Registrar will still permit the removal of the Profit and Loss Account and Directors' Report.
- Removing the requirement for micro-entity companies to prepare a Directors' Report.

The new structure of UK accounting standards is therefore set to look like this:

	Types of company	Note
EU-adopted IFRS	London Stock Exchange (LSE) Alternative Investment Market (AIM)	Option to adopt FRS 101 - reduced disclosure framework for qualifying parent/subsidiary
FRS 102	Private companies Individual listed companies Listed parent companies Not-for-profit entities	Disclosure exemptions for qualifying parent/subsidiary
FRSSE/FRS 102 Section 1A	Eligigible small entities	See definition below
FRSSE/FRS 105	Eligigible micro entities	See definition below

Within this structure all companies will be able to elect to 'move up'

To qualify as small or micro 2 of 3 of Turnover, Balance Sheet Total and Employees must apply (plus other considerations):

Entity	Turnover	Balance Sheet Total	Employees
Small	Less than £10.2 million	Less than £5.1 million	Less than 50
Micro	Not more than £632,000	Not more than £316,000	Not more than 10