Accounting Standards Board October 2010

# The Future of Financial Reporting in the UK and Republic of Ireland

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## Application of Financial Reporting Standards

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Accounting Standards Board

Appendices

Financial Reporting

Exposure Draft

*This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.*

*For ease of handling, we prefer comments to be sent by email (in Word format) to*

asbcommentletters@frc-asb.org.uk

*Comments may also be sent in hard copy form to:*

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*Comments should be despatched so as to be received no later than 30 April 2011. All replies will be regarded as on the public record, unless confidentiality is requested by the commentator.*

*The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC and/or any of its operating bodies unless the respondent explicitly requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to be published should be submitted.*

*We aim to publish responses within 10 working days of receipt.*

*We will publish a summary of the consultation responses, either as part of, or alongside, our final decision.*

# Financial Reporting Exposure Draft

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# Appendix 1

## Note on the legal requirements in the UK and Republic of Ireland

# APPENDIX 1: NOTE ON THE LEGAL REQUIREMENTS IN THE UK AND REPUBLIC OF IRELAND

## INTRODUCTION

A1.1 This appendix provides an overview of how the proposals set out in this FRED address United Kingdom and Republic of Ireland company law requirements. Specific legal requirements in the Republic of Ireland are set out in Table III.

A1.2 Reference to the Act in this Appendix refers to the Companies Act 2006. Reference to the Regulations refers to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

## APPLICATION OF THE TIER SYSTEM

### *Financial Reporting for Entities with Public Accountability (Tier 1)*

A1.3 The proposals in this FRED require entities which have public accountability to prepare financial statements in accordance with EU-adopted IFRS. The definition of entities which have public accountability in the [draft] FRS 'Application of Financial Reporting Requirements' (draft FRS) extends the requirement to prepare financial statements which are in accordance with international accounting standards. The FRED proposes guidance on the definition of public accountability.

A1.4 At present, group accounts of certain parent entities are required by Article 4 of the IAS Regulation to be prepared in accordance with international accounting standards.

A1.5 Entities that are not required by Article 4 to prepare accounts in accordance with the IAS Regulation but which have public accountability must, under the [draft] FRS, elect to prepare accounts in accordance with the IAS Regulation. This election must be made in accordance with section 395(1)(b) of the Act for individual accounts and in accordance with section 403(2)(b) for group accounts.

A1.6 As this election is permitted by Article 4 of the IAS Regulation, the accounts of tier 1 entities are prepared in accordance with the IAS Regulation.

### *Financial Reporting for Entities without Public Accountability (Tier 2)*

A1.7 Entities which do not have public accountability and are not permitted to apply the small companies regime, in accordance with the Act or which cannot take advantage of the size exemption set out in Irish law, may apply the Financial Reporting Standard for Medium-sized Entities (FRSME) or voluntarily adopt the requirements for tier 1. Accounts prepared in accordance with the FRSME are classified as "Companies Act accounts" and are therefore required to comply with the provisions of Part 15 of the Act and with the Regulations. Accounts prepared in accordance with EU-adopted IFRS are within the scope of the IAS Regulation.

### *Financial Reporting for Small Entities without Public Accountability (Tier 3)*

A1.8 Entities which do not have public accountability and are permitted, in accordance with the Act, to apply the small companies regime or can take advantage of the size exemption set out in Irish law may apply the FRSSE. The definition of a small company is contained in sections 381–384 of the Act. The qualifying conditions are currently met by a company in a year in which it does not exceed two or more of the following criteria:

Turnover £6,500,000

Balance sheet total £3,260,000

Average number of employees 50

A1.9 For any company, other than a newly incorporated company, to qualify as small, the qualifying conditions must be met for two consecutive years. A company will cease to qualify as small if it fails to meet the qualifying conditions for two consecutive years.

A1.10 Certain companies are excluded by section 384 of the Act from the small company definition for reasons of public interest. These are any entity that meets one of the following conditions or is part of an ineligible group, that is a group with a member meeting one of the conditions:

(a) a public company;

(b) a company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company or carries on insurance market activity;

(c) a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; or

(d) a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity.

A1.11 A parent company shall not be treated as qualifying as a small company in relation to a financial year unless the group headed by it qualifies as a small group.

A1.12 The definition of a small group is contained in section 383 of the Act. The qualifying conditions are met by a group in a year in which it does not exceed two or more of the following criteria:

Aggregate turnover £6,500,000 net (or £7,800,000 gross);

Aggregate balance sheet total £3,260,000 net (or £3,900,000 gross)

Aggregate number of employees 50.

'Net' means after any set-offs and other adjustments required by Schedule 6 of the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 in the case of group accounts, and 'gross' means without those set-offs and other adjustments. A company may satisfy the relevant requirements on the basis of either the net or the gross figure.

A1.13 Companies satisfying these conditions are included in tier 3 and may therefore elect to prepare their accounts using the FRSSE, which includes all relevant extracts of company law. They may also elect to prepare their accounts in accordance with the FRSME or EU-adopted IFRS.

***Financial reporting by charitable companies***

A1.14 At present, section 395(2) of the Act states that "the individual accounts of a company that is a charity must be Companies Act individual accounts", and section 403(3) of the Act mirrors this for the group accounts of a charity. The ASB has received an undertaking that BIS will consult on modifying the law so that charitable companies falling within the scope of tier 1 will legally be able to prepare IAS company and, where relevant, group accounts.

***Moving between reporting tiers***

A1.15 Both sections 395 and 403 of the Act provide that a company or group which prepares IAS accounts may not move to preparing Companies Act accounts unless there is a "relevant change in circumstance". This restriction is still applicable. The ASB has, however, received provisional consent that BIS will consult on amending the Act so that the definition of a relevant change in circumstance includes the implementation of the proposals set out in this FRED. In these circumstances a subsidiary company, for example, which previously elected to prepare accounts under EU-adopted IFRS for consistency with its parent company will not be prohibited from moving to tier 2 or from applying either of the reduced disclosure frameworks, as a one-off change.

*Consistency within groups*

A1.16 The Act requires, in section 407, that the individual accounts of a parent company and each of its subsidiary undertakings are prepared using the same financial reporting framework, except to the extent that in the directors' opinion there are good reasons for not doing so.

In addition, consistency is not required in the following situations:

(a) when the parent company does not prepare group accounts;

(b) when some subsidiary undertakings are charities (consistency is not needed between the framework used for these and for other subsidiaries); and

(c) where the directors of a parent company prepare IAS group accounts and IAS individual accounts.

A1.17 All entities, other than entities which elect or are required to prepare IAS accounts in accordance with law or the draft FRS, prepare Companies Act accounts. As a consequence, it is possible for a group to meet the consistency requirement where some subsidiary undertakings apply EU-adopted IFRS and take advantage of the reduced disclosure framework and others apply the FRSME.

## APPLICABILITY OF UK COMPANY LAW TO ENTITIES IN TIER 1

A1.18 Entities which have public accountability, and are therefore required to elect to prepare IAS accounts, and others which do so voluntarily, only need apply certain sections of the Act as it relates to financial reporting. In particular, they are not required to comply with Schedules 1 and 6 of the

Regulations (for companies and groups), nor with Schedules 2 or 3 (for banks and insurance companies). Schedules 4, 5, 7 and 8 of the Regulations are, however, still applicable.

A1.19 The sections of part 15 of the Act which contain financial reporting requirements applying to 'IAS accounts' (as well as to 'Companies Act accounts') are as follows:

(a) Section 410A (disclosure of off balance sheet arrangements);

(b) Section 411 (employee numbers and costs);

(c) Section 413 (loans and transactions with officers and directors);

(d) Sections 415–419 (contents of directors' report);

(e) Sections 420–421 (contents of directors' remuneration report); and

(f) Section 494 (auditor's remuneration).

**FINANCIAL INSTRUMENTS**

A1.20 All preparers of Companies Act accounts must comply with the prescriptive requirements of paragraph 36 of Schedule 1 to the Regulations, which provides that:

(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

(2) Sub-paragraph (1) does not apply to financial instruments that constitute liabilities unless—

a. they are held as part of a trading portfolio,

b. they are derivatives, or

c. they are financial instruments falling within sub-paragraph (4).

(3) [...]

(4) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosure required by such accounting standards are made.

A1.21 A subsidiary applying EU-adopted IFRS and taking advantage of the disclosure exemptions in the draft FRS and taking the option under the EU-adopted IAS 39 to designate financial instruments at fair value must also comply with paragraph 36(4), as quoted above, and therefore all relevant IAS disclosures are required for instruments designated at fair value.

A1.22 Similarly, a preparer applying the FRSME that is required by section 12 to hold financial instruments within the section's scope at fair value may also fall within the category defined by paragraph 36(4). In these circumstances, measurement at fair value can only be achieved by reference to EU-adopted IAS 39 and, consequently, the relevant disclosures have been added to section 11 of the FRSME.

A1.23 In rare circumstances, an entity applying the FRSME may be required to account for a financial instrument at fair value in accordance with Section 12 where this is not permitted by law because the instrument does not belong to any of the categories set out in paragraph 36 of Schedule 1 to the Regulations. This FRED is seeking comments on the likelihood of these circumstances arising.

## APPLICATION OF THE REDUCED DISCLOSURE FRAMEWORK PROPOSALS

A1.24 Where a qualifying subsidiary prepares accounts in accordance with EU-adopted IFRS and takes advantage of the reduced disclosure framework proposed in the draft FRS 'Application of Financial Reporting Requirements', it prepares Companies Act individual accounts as referred to in section 395 of the Act. These accounts must comply with the provisions of section 396 of the Act and, by extension, with the Accounting Directives.

A1.25 To ensure compliance with the Accounting Directives, an analysis was undertaken of EU-adopted IFRS to identify any areas in EU-adopted IFRS not compliant with the Accounting Directives. Based on this analysis, amendments are required to EU-adopted IFRS for any subsidiary taking advantage of the reduced disclosure framework. Table I, at the end of this Appendix, sets out details of the proposed amendments to EU-adopted IFRS to ensure compliance with the Accounting Directives. The situations described are not considered likely to be common in practice.

A1.26 A qualifying subsidiary preparing accounts in accordance with EU -adopted IFRS and taking advantage of the reduced disclosure framework may have recognised goodwill which is not amortised, in accordance with IFRS 3. The application of this requirement will usually be a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of the Regulations to amortise goodwill over its useful life. In this circumstance, there will need to be given in the notes to the accounts "particulars of the departure, the reasons for it and its effect" (paragraph 10(2) of the Regulations).

A1.27 A qualifying subsidiary using the reduced disclosure framework and applying IAS 19 must, in order to comply with the Regulations in respect of recognising only realised amounts in the profit and loss account, apply paragraph 93A in respect of recognising actuarial gains and losses in the period in which they occur.

## APPLICATION OF THE IFRS FOR SMEs IN THE UK

### *Compatibility with the Accounting Directives*

A1.28 The IFRS for SMEs as issued by the IASB included certain accounting options which are incompatible with Company law and also, in most of these cases, with the Accounting Directives. In the FRSME, amendments have been made to remove all of these incompatibilities. The relevant extracts from the Act and, where relevant, the Accounting Directives, are shown in table II at the end of this Appendix together with the relevant text of the IASB's IFRS for SMEs and the amended text used in the FRSME.

### *Compliance with UK Company law*

A1.29 Most of the content of the Regulations arises from direct enactment of the Accounting Directives; hence these are also the source of the amendments described above and in Table II. Also, in certain areas, UK Company law adds requirements which are not included in the Accounting Directives, although these do not give rise to amendments to the FRSME.

### *Presentation of company financial statements*

A1.30 The FRSME does not prescribe which entities prepare which type of financial statements and preparers should apply the requirements of the Act. A parent company preparing consolidated financial statements under section 434(2) of the Act must publish its company financial statements together with the group accounts, although section 408 of the Act allows an exemption from including the company profit and loss account in this case.

### *Recording investments at cost*

A1.31 Paragraph 9.26 of the FRSME requires that in an investor's separate financial statements its investments in subsidiaries are accounted for at cost less impairment or at fair value. This limits the use of 'merger relief' and 'group reconstruction relief' as set out in sections 610–615 of the Act so that, although there continues to be a relief from transferring to the share premium account the excess of investment cost over nominal value of shares issued, the cost of investment may not be reduced further as would otherwise be permitted by section 615.

### *Realised profits*

A1.32 Paragraph 13(a) of Schedule 1 to the Regulations requires that only profits realised at the balance sheet date are included in the profit and loss account, a requirement modified from that in Article 31.1(c)(aa) of the Fourth Directive which refers to profits 'made' at the balance sheet date.

A1.33 Paragraph 39 of Schedule 1 to the Regulations allows that investment property and living animals and plants that may under international accounting standards be held at fair value, may also be held at fair value in Companies Act accounts. Paragraph 40(2) of Schedule 1 to the Regulations then requires that movements in the value of such assets are recognised in the profit and loss account, notwithstanding the usual restrictions allowing only realised profits and losses to be included in the profit and loss account.

A1.34 Entities measuring investment properties at fair value should also note that while the FRSME requires fair value movements to be shown in profit or loss, paragraph 35 of Schedule 1 to the Regulations requires that revaluation gains or losses must be held in a separate reserve, meaning that annual reclassifications to or from retained profits will be necessary.

## MERGER ACCOUNTING

A1.35 Paragraph 10 of Schedule 6 to the Regulations permits the use of merger accounting in certain circumstances. This is not, however, either prohibited or explicitly permitted in the FRSME, which requires the application of the purchase method of accounting for all acquisitions in paragraph 19.6, but explicitly scopes out common control transactions in paragraph 19.2 without providing any alternative guidance.

## ACCOUNTS FORMATS

A1.36 Paragraph 3.17 of the FRSME specifies the minimum components of a set of financial statements, including:

(a) a **statement of financial position** as at the **reporting date**.

(b) either:

(i) a single **statement of comprehensive income** for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**, or

(ii) a separate **income statement** and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

(c) a **statement of changes in equity** for the reporting period.

(d) a **statement of cash flows** for the reporting period.

(e) **notes**, comprising a summary of significant accounting policies and other explanatory information.

A1.37 Paragraph 3.22 of the FRSME then goes on to clarify that alternative titles may be used, providing that they are not misleading.

A1.38 Sections 4 and 5 of the FRSME prescribe line items which must be included in the statement of financial position and statement of comprehensive income, but do not prescribe the sequence or format. There is also flexibility in the naming of line items: 4.9(b) states that "the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position".

A1.39 UK Company law is considerably less flexible in respect of the format of financial statements. Section 396 requires that Companies Act individual accounts include a balance sheet and a profit and loss account prepared in accordance with the Companies Act formats. Schedule 1 to the Regulations then gives the details of four permitted formats for the profit and loss account, and two for the balance sheet. These requirements are mirrored for group accounts in section 404 (contents of Companies Act group accounts) and Schedule 6 paragraph 20, which requires groups to use the formats for companies in Schedule 1, with relevant modifications (noted below).

A1.40 An unamended profit and loss account and balance sheet prepared in accordance with the Act would not meet all of the requirements of the FRMSE; conversely, a statement of comprehensive income and statement of financial position complying with sections 4 and 5 of the FRSME would not meet the requirements of the Act. Care is therefore needed in preparing primary statements which comply with both sets of requirements.

A1.41 The tables below map the FRSME's required headings to the statutory requirements based on 'format 1' for the profit and loss account and balance sheet. 'Format 1' has been used for illustration as it is the most readily mapped to the FRSME requirements. Rows with a line item in one column and no matching line item in the other are those where additional detail will be required to ensure that a set of FRSME accounts also complies with Company law.

## *Profit and loss account*

| **Companies Act** | **FRSME** |
|---|---|
| Turnover | (a) revenue |
| Cost of sales | |
| Gross profit/loss | |
| Distribution costs | |
| Administrative expenses | |
| Other operating income | |
| Income from shares in group undertakings | |
| Income from participating interests (note 1) | (c) share of the profit or loss of investments in associates and jointly controlled entities accounted for using the equity method |
| Income from other fixed asset investments | |
| Other interest receivable and similar income | |
| Amounts written off investments | |
| Interest payable and similar charges | (b) finance costs |
| Profit/loss on ordinary activities before taxation (note 2) | |
| Tax on profit or loss on ordinary activities | (d) tax expense |
| Profit/loss on ordinary activities after taxation | |

## *Profit and loss account (cont.)*

| **Companies Act** | **FRSME** |
|---|---|
| | (e) a single amount comprising the total of:<br>(i) the post-tax profit or loss of a discontinued operation, and<br>(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the net assets constituting the discontinued operation |
| Extraordinary income | |
| Extraordinary charges | |
| Extraordinary profit or loss | |
| Tax on extraordinary profit/loss | |
| Other taxes not shown under the above items | |
| Profit/loss for the financial year | (f) profit or loss |
| | (g) each item of other comprehensive income...classified by nature |
| | (h) share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method. |
| | (i) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line such as profit or loss) |

Notes:

1 Schedule 6 replaces this heading for group accounts, with the items "Income from interests in associated undertakings" and "Income from other participating interests".

2 This additional subtotal is required by Schedule 1 paragraph 6.

## *Balance sheet*

| **Companies Act** | **FRSME** |
|---|---|
| Called up share capital not paid | |
| Fixed assets: | |
| Intangible assets | (g) intangible assets |
| Tangible assets | (e) property, plant and equipment<br>(f) investment property carried at fair value through profit or loss |
| Investments | (j) investments in associates<br>(k) investments in jointly controlled entities |
| | (o) deferred tax liabilities and deferred tax assets (these shall always be classified as non-current) |
| Current assets: | |
| Stocks | (d) inventories<br>(h) biological assets carried at cost less accumulated depreciation and impairment<br>(i) biological assets carried at fair value through profit or loss |
| Debtors | (b) trade and other receivables |
| Investments | |
| Cash at bank and in hand | (a) cash and cash equivalents |
| Prepayments and accrued income | |
| | (c) financial assets (excluding those shown under (a), (b), (j) and (k)). |
| Creditors: amounts falling due within one year | (l) trade and other payables<br>(m) financial liabilities (excluding amounts shown under (l) and (p))<br>(n) liabilities and assets for current tax |

## *Balance sheet (cont.)*

| **Companies Act** | **FRSME** |
|---|---|
| Net current assets (liabilities) | |
| Total assets less current liabilities | |
| Creditors: amounts falling due after more than one year | (o) deferred tax liabilities and deferred tax assets (these shall always be classified as non-current) |
| Provisions for liabilities | (p) provisions |
| Accruals and deferred income | |
| Capital and reserves: | |
| Called up share capital | |
| Share premium account | |
| Revaluation reserve | |
| Other reserves | |
| Profit and loss account | |
| | (q) non-controlling interest, presented within equity separately from the equity attributable to the owners of the parent |
| | (r) equity attributable to the owners of the parent |

A1.42 Providing that all of the line items required by the FRSME are included, their name and position is irrelevant: this means that for most preparers, a format 1 profit and loss account will comply with section 5 of the FRSME.

A1.43 An entity with discontinued operations, however, may need to use columns and additional subtotals in order to present the results of those operations, combined with the profit or loss on their disposal, as a single line item while still complying with the requirement of the Act to show totals for items such as turnover and profit before tax.

A1.44 Similarly, careful use of subtotals will be necessary for entities with certain financial assets or liabilities in order to include them within the appropriate Companies Act headings as well as showing the total required in items (c) and (m) above.

A1.45 Preparers should also note the distinction between 'fixed assets' (the term used in format 1) and 'non current assets' (from section 4 of the FRSME). UITF Abstract 4 addressed the inclusion of debtors due after more than one year within 'current assets', and concluded that usually it will be sufficient to disclose such an inclusion within the notes to the financial statements, although if the amount is so material as to be likely to lead to misinterpretation, it is required to be shown separately on the face of the balance sheet. Preparers with balances previously in the scope of UITF 4 will need to give careful consideration to the definition of current and non-current assets in paragraphs 4.5–4.6 of the FRSME in order to determine the most appropriate presentation.

A1.46 Qualifying subsidiaries applying EU-adopted IFRS within the reduced disclosure framework will need to pay similar attention to the interaction of the Act and IAS 1 'Presentation of financial statements' in respect of accounts formats.

## IMPACT ON DISTRIBUTABLE PROFITS

A1.47 The determination of profits available for distribution is a complex area where accounting and Company law interface. In determining profits available for distribution an entity may refer to 'Guidance on realised and distributable profits under the Companies Act 2006' issued by the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Scotland.

## Table I – Proposed amendments to EU-adopted IFRS to ensure compliance with the Accounting Directives

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IFRS 1 | Assets and liabilities of subsidiaries, associates and joint ventures. IFRS 1 provides an option for a subsidiary which becomes a first-time adopter later than its parent, or for an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it. This option allows the entity to measure its assets and liabilities at the carrying amounts that would be include in the parent's consolidated financial statements, based on the parent's date of transition to IFRS (D16). Due to the amendments which are necessary to ensure compliance with the EU-directives, subsidiaries applying the reduced disclosure framework must measure their assets and liabilities in accordance with this framework. Using the basis used by the parent entity in its consolidated accounts may not be compliant with the Directives. | Propose to allow option, provided that the measurement of assets and liabilities in the subsidiary's individual accounts comply with the Accounting Directives. |

**Table I continued**

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| | IFRS 1 requires that, where an entity becomes a first-time adopter later than its subsidiary, the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the individual financial statements of the subsidiary (D17). However, in order to comply with the Accounting Directives, where the subsidiary financial statements are prepared under the reduced disclosure framework, the assets and liabilities of the subsidiary may be measured differently to the amounts included in the consolidated accounts which are measured under full EU-adopted IFRS. | Propose to amend, to specify that the measurement of assets and liabilities in the subsidiary's individual accounts comply with the Accounting Directives. |
| IFRS 3 | Negative goodwill. IFRS 3 requires that negative goodwill is recognised as a gain in profit or loss at the acquisition date (IFRS 3.34). However, the 7th Directive sets out conditions for the recognition of negative goodwill in profit or loss (Art 31). | Propose to amend IFRS 3.34 in line with the amendments made to IFRS for SMEs paragraph 19.24. |

**Table I continued**

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IFRS 5 | Analysis of results of discontinued operation. IFRS 5 allows this analysis to be presented on the face of the statement of comprehensive income or in the notes (IFRS 5.33). Under the 4th Directive, Art 23–26, this information must be provided on the face of the profit and loss account (or equivalent). Therefore the option of providing this analysis in the notes is not compliant with the 4th Directive. | Propose to amend IFRS 5.33 to remove the option to present the analysis in the notes to the accounts, and instead require the information to be given on the face of the statement of comprehensive income. |
| IAS 1 | Balance sheet and Statement of Comprehensive income must comply with layouts—see paragraphs A1.36–A1.46 above. | |
| | Presentation based on liquidity. IAS 1.60 permits a balance sheet to be presented based on liquidity where this presentation provides information that is reliable and more relevant. However, under the Directives this option can only be used by banks and other financial institutions, which would not fall within the reduced disclosure framework. This option is therefore not compliant with the Directives. | Propose to remove the option in IAS 1.60 to present a balance sheet based on liquidity. |
| | Extraordinary items. IAS 1 does not permit the presentation of extraordinary items (IAS 1.87), however the 4th Directive requires it (Art 23-26). | Propose to amend IAS 1.87 to remove prohibition and introduce the definition of extraordinary items from FRS 3, as for paragraph 5.10 of the IFRS for SMEs. |

**Table I continued**

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IAS 16 | Government grants. IAS 16.28 permits the carrying amount of property, plant and equipment to be reduced by government grants in accordance with IAS 20. Such off-setting is not permitted under the 4th Directive (Art 7). Therefore this option is not compliant. | Propose to amend IAS 16.28 to remove the option to reduce the carrying amount of property, plant and equipment by government grants. |
| IAS 19 | Reimbursement. IAS 19.104A permits the expense relating to defined benefit plan to be presented in the statement of comprehensive income net of the amount recognised for a reimbursement. However, Art 7 of the 4th Directive does not permit set-off between income and expenditure items. | Propose to remove the off-setting option in IAS 19.104A. |
| IAS 20 | Balance sheet off-setting. IAS 20.24 contains an option which permits government grants related to assets to be deducted in arriving at the carrying amount of the asset. Such off-setting of assets and liabilities is not permitted by Art 7 of the 4th Directive.<br><br>Profit and loss account off-setting. IAS 20.29 contains an option which permits grants related to income to be deducted in reporting the related expense. Such off-setting of income and expenditure is not permitted by Art 7 of the 4th Directive. | Propose to amend IAS 20.24 to remove the off-set option<br><br>Propose to amend IAS 20.29 to remove the off-set option |

## Table I continued

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IAS 28 | Use of the equity method. IAS 28 permits the use of the equity method of accounting for investments in associates in financial statements which are not separate financial statements. The Directives only permit the use of the equity method in preparing consolidated accounts. Therefore IAS 28 permits the use of the equity method in circumstances in which it is not permitted by the Directives. | Propose to amend IAS 28 to restrict the use of the equity method to consolidated accounts, and require the measurement of investments in associates either at cost or in accordance with IAS 39 in all other types of financial statements. |
| | 'Negative goodwill'. IAS 28 requires the recognition of any excess of the investor's share of the net fair value of the net assets over the cost of investment in the investor's profit or loss in the period of acquisition (IAS 28.23(b)). The 7th Directive requires the recognition of such a difference on the balance sheet on acquisition (Art 33), but does not specify the subsequent treatment of a negative difference. However, the 7th Directive does set out conditions for the recognition of negative goodwill in a business combination in profit or loss (Art 31). | Propose to amend IAS 28.23(b) in line with the amendment made to IFRS for SMEs paragraph 19.24. |

**Table I continued**

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IAS 31 | Use of proportionate consolidation. IAS 31 permits the use of proportionate consolidation in financial statements which are not separate financial statements. The Directives only permit the use of proportionate consolidation in preparing consolidated accounts. Therefore IAS 31 permits the use of proportionate consolidation in circumstances in which it is not permitted by the Directives. | Propose to amend IAS 31 to restrict the use of proportionate consolidation to consolidated accounts and require the measurement of investments in jointly controlled entities either at cost or in accordance with IAS 39 in all other types of financial statements. |
| | Use of the Equity Method. IAS 31 permits the use of the equity method in financial statements which are not separate financial statements. The Directives only permit the use of the equity method in preparing consolidated accounts. Therefore IAS 31 permits the use of the equity method in circumstances in which it is not permitted by the Directives. | Propose to amend IAS 31 to restrict the use of the equity method to consolidated accounts and require the measurement of investments in jointly controlled entities either at cost or in accordance with IAS 39 in all other types of financial statements. |
| IAS 36 | Reversal of impairment of goodwill. IAS 36 prohibits the reversal of impairment losses recognised on goodwill (IAS 36.124), while the $4^{th}$ Directive requires it (Art 35) where the reasons for which they were recognised cease to apply. | Propose to amend IAS 36.124 in the same way as proposed for IFRS for SMEs 27.28. |

## Table I continued

| IFRS | Explanation/potential issues | Proposal in this FRED |
|---|---|---|
| IAS 37 | Reimbursements. IAS 37.54 allows an expense relating to provision to be presented net of an amount recognised for a reimbursement. However, Art 7 of the 4th Directive does not permit set-off between income and expenditure items. | Propose to delete IAS 37.54 to remove the off-set option. |

## Table II Proposed amendments to the IFRS for SMEs to ensure compliance with UK company law

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| Not applicable | GROUP ACCOUNTS<br>7. art. 33:<br>1. Where an undertaking included in a consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest...that participating interest shall be shown in the consolidated balance sheet as a separate item with an appropriate heading...<br>2. When this Article is applied for the first time to a participating interest covered by paragraph 1 above, that participating interest shall be | 2.50 For the following types of non-financial assets, this IFRS permits or requires measurement at fair value:<br>(a) investments in **associates** and **joint ventures** that an entity measures at fair value (see paragraphs 14.10 and 15.15 respectively).<br>(b) **investment property** that an entity measures at fair value (see paragraph 16.7).<br>(c) agricultural assets (**biological assets** and **agricultural produce** at the point of harvest) that an entity measures at fair value less estimated costs to sell (see paragraph 34.2). | 2.50 For the following types of non-financial assets, this [IFRS] permits or requires measurement at fair value:<br>(a) [not used]<br>(b) **investment property** that an entity measures at fair value (see paragraph 16.7).<br>(b) agricultural assets (**biological assets** and **agricultural produce** at the point of harvest) that an entity measures at fair value less estimated costs to sell (see paragraph 34.2). |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | shown in the consolidated balance sheet either:<br>(a) at its book value calculated in accordance with the valuation rules laid down in Directive 78/660/EEC...;or<br>(b) at an amount corresponding to the proportion of the associated undertaking's capital and reserves represented by that participating interest...<br><br>COMPANY ACCOUNTS<br>4. art 42a<br>1 By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any | | |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC<br>…<br>4.Valuation according to paragraph 1 shall not apply to:<br>…<br>(c) to interests in subsidiaries, associated undertaking and joint ventures.… | | |
| Regulations Sch 1 para 1<br>(1) Subject to the following provisions of this Schedule—<br>(a) every balance sheet of a company must show the items listed in either of the | 4. art. 8:<br>For the presentation of the balance sheet, the Member States shall prescribe one or both of the layouts prescribed by Articles 9 and 10. If a | 4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance | 4.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| balance sheet formats in section B of this Part, and<br>(b) every profit and loss account must show the items listed in any one of the profit and loss account formats in section B.<br>(2) [...]<br>(3) The items must be shown in the order and under the headings and sub-headings given in the particular format used... | Member State prescribes both, it may allow companies to choose between them.<br>Member States may permit or require companies to adopt the presentation of the balance sheet set out in Article 10a as an alternative to the layouts otherwise prescribed or permitted. | with paragraphs 4.5–4.8, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending). | financial position in accordance with paragraphs 4.5–4.8. |
| Not applicable | 4. art. 29.1 Income and charges that arise otherwise than in the course of the company's ordinary activities must be shown under "Extraordinary items and extraordinary charges". | 5.10 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes. | 5.10 Ordinary activities are any activities which are undertaken by a reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, incidental to, or arising from, these activities. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | | Ordinary activities include any effects on the reporting entity of any event in the various environments in which it operates, including the political, regulatory, economic and geographical environments, irrespective of the frequency or unusual nature of the events.<br><br>5.10A Extraordinary items are material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur. They do not include the additional line items required by paragraph 5.9, nor do they include prior period items merely because they relate to a prior period. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| Regulations, Sch 6 para 2:<br>(2) If the financial year of a subsidiary undertaking included in the consolidation does not end with that of the parent company, the group accounts must be made up—<br>(a) from the accounts of the subsidiary undertaking for its financial year last ending before the end of the parent company's financial year, provided that year ended no more than three months before that of the parent company; or<br>(b) from interim accounts prepared by the subsidiary undertaking as at the end of the parent company's financial year. | 7. art. 27:<br>1. Consolidated accounts must be drawn up as at the same date as the annual accounts of the parent undertaking.<br>2. A Member State may, however, require or permit consolidated accounts to be drawn up as at another date in order to take account of the balance sheet dates of the largest number or the most important of the undertakings included in the consolidation. Where use is made of this derogation that fact shall be disclosed in the note on the consolidated accounts together with the reasons therefore. In addition, account must be taken or disclosure made of | 9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same **reporting date** unless it is **impracticable** to do so. | 9.16 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless the provisions of Schedule 6, paragraph 2(2) of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 are applied. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | important events concerning the assets and liabilities, the financial position or the profit or loss of an undertaking included in a consolidation which have occurred between that undertaking's balance sheet date and the consolidated balance sheet date. | | |
| Regulations Sch 1 para 36<br>(1) Subject to sub-paragraphs (2)–(5), financial instruments (including derivatives) may be included at fair value.<br>(2) Sub-paragraph (1) does not apply to financial instruments that constitute liabilities unless—<br>(a) they are held as part of a trading portfolio,<br>(b) they are derivatives, or | 4. art. 42a:<br>1. By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any class of companies valuation at fair value of financial instruments, including derivatives. | 11.2 An entity shall choose to apply either:<br>(a) the provisions of both Section 11 and Section 12 in full; or<br>(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12 | 11.2 An entity shall choose to apply either:<br>(a) the provisions of both Section 11 and Section 12 in full; or<br>(b) the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12 |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| (c) they are financial instruments falling within sub-paragraph (4).<br>(3)[...]<br>(4) financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made. | Such permission may be restricted to consolidated accounts as defined in Directive 83/349/EEC.<br>...<br>3. Paragraph 1 shall apply only to liabilities that are:<br>(a) held as part of a trading portfolio; or<br>(b) derivative financial instruments.<br>...<br>5a By way of derogation from the provisions of paragraphs 3 and 4, Member States may, in accordance with international accounting standards as adopted by Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in | to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted or, and what information should be disclosed about the change. | to account for all of its financial instruments. An entity's choice of (a) or (b) is an accounting policy choice. Paragraphs 10.8–10.14 contain requirements for determining when a change in accounting policy is appropriate, how such a change should be accounted or, and what information should be disclosed about the change.<br><br>Paragraph 11.41(d) is amended as follows:<br><br>Financial liabilities measured at fair value through profit or loss (paragraphs 12.8 and 12.9). Financial liabilities that are not held as part of a trading portfolio and are not |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended until 5 September 2006, permit or require valuation of financial instruments, together with the associated disclosure requirements which are provided for in international accounting standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. | | derivatives shall be shown separately.<br><br>Paragraph 11.48(a)(ii) is amended as follows:<br><br>Financial liabilities measured at fair value through profit or loss (with separate disclosure of movements on those which are not held as part of a trading portfolio and are not derivatives).<br><br>Paragraph 11.48A is inserted:<br><br>**Financial Liabilities at fair value**<br><br>The following disclosures are required only for financial instruments at fair value that are not investments in equity, are not held as part of a trading |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | | portfolio and are not derivatives:<br>(a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:<br>(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or<br>(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | | changes in the credit risk of the liability.<br>(b) the method used to establish the amount of change attributable to changes in own credit risk, or, if the change cannot be measured reliably or is not material, that fact.<br>(c) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.<br>(d) if an instrument contains both a liability and an equity feature, and the involvement has multiple features that substantially modify the cash flows and |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | | the values of those features are interdependent (such as a callable convertible debt involvement), the existence of these features.<br>(e) any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique and the amount recognised in profit or loss.<br>(f) information that enables users of the entity's financial statements to evaluate the nature and extent of relevant risks arising from financial instruments to which the entity is exposed at the end of the reporting period. |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | | These risks typically include, but are not limited to, credit risk, liquidity risk and market risk. The disclosure should include both the entity's exposure to each type of risk and how it manages those risks. |
| See above | See above | 12.8 At the end of each **reporting period**, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and contracts linked to such instruments that, if exercised, | 12.8 At the end of each **reporting period**, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in fair value in profit or loss, except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably and contracts linked to such instruments that, if exercised, |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | will result in delivery of such instruments, shall be measured at cost less impairment. | will result in delivery of such instruments, shall be measured at cost less impairment.<br>12.8A For financial instruments in the scope of this section that are not held for trading and are not derivative instruments, an entity shall provide additional disclosures as set out in paragraph 11.48A. |
| Regulations, Sch 6 para 21<br>(1) The interest of an undertaking in an associated undertaking, and the amount of profit or loss attributable to such an interest, must be shown by the equity method of accounting (including dealing with any goodwill arising in accordance with paragraphs 17 to 20 and 22 of Schedule 1 to these Regulations). | GROUP ACCOUNTS<br>7. art. 33:<br>1. Where an undertaking included in a consolidation exercises a significant influence over the operating and financial policy of an undertaking not included in the consolidation (an associated undertaking) in which it holds a participating interest...that participating interest shall be | 14.4 An investor shall account for all of its investments in associates using one of the following:<br>(a) the cost model in paragraph 14.5.<br>(b) the equity method in paragraph 14.8.<br>(c) the fair value model in paragraph 14.9. | 14.4 An investor which is not a parent but that has an investment in one or more associates shall account for all of its investments in associates using the cost model in paragraph 14.5.<br>14.4A An investor which is a parent shall, in its consolidated financial statements, account for all of its investments in |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
| --- | --- | --- | --- |
| | shown in the consolidated balance sheet as a separate item with an appropriate heading...<br>2. When this Article is applied for the first time to a participating interest covered by paragraph 1 above, that participating interest shall be shown in the consolidated balance sheet either:<br>(a) at its book value calculated in accordance with the valuation rules laid down in Directive 78/660/EEC...;or<br>(b) at an amount corresponding to the proportion of the associated undertaking's capital and reserves represented by that participating interest... | **Cost model**<br>14.5 An investor shall measure its investments in associates, other than those for which there is a published price quotation (see paragraph 14.7) at cost less any accumulated impairment losses recognised in accordance with section 27 *Impairment of Assets*. | associates using the equity method in paragraph 14.8.<br>**Cost model**<br>14.5 An investor which is not a parent shall measure its investments in associates at cost less any accumulated impairment losses recognised in accordance with section 27 *Impairment of Assets*.<br>*Delete* paragraphs 14.7, 14.9, 14.10, 14.15 |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | COMPANY ACCOUNTS<br>4. art 42a<br>1 By way of derogation from Article 32 and subject to the conditions set out in paragraphs 2 to 4 of this Article, Member States shall permit or require in respect of all companies or any classes of companies valuation at fair value of financial instruments, including derivatives. Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC<br>...<br>4. Valuation according to paragraph 1 shall not apply to:<br>...<br>(c) to interests in subsidiaries, associated undertaking and joint ventures... | | |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| Regulations, Sch 6<br>18(1) Where an undertaking included in the consolidation manages another undertaking jointly with one or more undertakings not included in the consolidation, that other undertaking ("the joint undertaking") may, if it is not—<br>(a) a body corporate, or<br>(b) a subsidiary undertaking of the parent company,<br>be dealt with in the group accounts by the method of proportional consolidation.<br>[...]<br>19(1) An "associated undertaking" means an undertaking in which an undertaking included in the consolidation has a | 7. art. 32:<br>1. Where an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation, a Member State may require or permit the inclusion of that other undertaking in the consolidation accounts in proportion to the rights in its capital held by the undertaking included in the consolidation.<br>2. Articles 13 to 31 shall apply mutatis mutandis to the proportional consolidation referred to in paragraph 1 above.<br>3. Where this Article is applied, Article 33 shall not | 15.9 A venturer shall account for all of its interests in jointly controlled entities using one of the following:<br>(a) the cost model in paragraph 15.10;<br>(b) the equity method in paragraph 15.13; or<br>(c) the **fair value** model in paragraph 15.14.<br>**Cost model**<br>15.10 A venturer shall measure its investments in jointly controlled entities, other than those for which there is a published price quotation (see | 15.9 A venturer which is not a parent but has one or more interests in jointly controlled entities shall account for all of its interests in jointly controlled entities using the cost model in paragraph 15.10.<br>15.9A An investor shall, in its consolidated financial statements, account for all of its investments in joint ventures using the equity method in paragraph 15.13.<br>**Cost model**<br>15.10 A venturer which is not a parent shall measure its investments in jointly controlled entities at cost less any accumulated impairment |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| participating interest and over whose operating and financial policies it exercises a significant influence, and which is not—<br>(a) a subsidiary undertaking of the parent company; or<br>(b) a joint venture dealt with in accordance with paragraph 18.<br>[...]<br>21 (1) The interest of an undertaking in an associated undertaking, and the amount of profit or loss attributable to such an interest, must be shown by the equity method of accounting (including dealing with any goodwill arising in accordance with paragraphs 17 to 20 of Schedule 1 to these Regulations). | apply if the undertaking proportionally consolidated is an associated undertaking as defined in Article 33. | paragraph 15.12), at cost less any accumulated impairment losses recognised in accordance with Section 27 *Impairment of Assets*. | losses recognised in accordance with Section 27 *Impairment of Assets*.<br>*Delete* paragraphs 15.12, 15.14, 15.15 and 15.21 |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| Sch 1 para 22<br>(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company must be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.<br>(3) The period chosen must not exceed the useful economic life of the goodwill in question. | 7. art. 30.1<br>A separate item as defined in Article 19(1)(c) which corresponds to a positive consolidation difference shall be dealt with in accordance with the rules laid down in Directive 78/660/EEC for the item "goodwill".<br>4. art. 34.1(a)<br>Where national law authorizes the inclusion of formation expenses under "Assets", they must be written off within a maximum period of five years.<br>4. art. 37.2<br>Article 34(1)(a) shall apply to goodwill. The Member States may, however, permit companies to write goodwill off systematically over a limited | 19.23 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation and accumulated impairment losses:<br>(a) an entity shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years.<br>(b) An entity shall follow section 27 *Impairment of Assets* for recognising and measuring the impairment of goodwill. | 19.23 After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation and accumulated impairment losses:<br>(a) an entity shall follow the principles in paragraphs 18.19–18.24 for amortisation of goodwill. The life of goodwill shall be presumed to be five years or less unless the goodwill has a longer useful economic life.<br>(b) An entity shall follow section 27 *Impairment of assets* for recognising and measuring the impairment of goodwill. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | period exceeding five years provided that this period does not exceed the useful economic life of the asset and is disclosed in the notes on the accounts together with the supporting reasons therefore. | | |
| Regulations, Sch 1, para 13<br>The amount of any item must be determined on a prudent basis, and in particular—<br>(a) only profits realised at the balance sheet date are to be included in the profit and loss account... | 7. art. 31<br>An amount shown as a separate item, as defined in Article 19(1)(c), which corresponds to a negative consolidation difference may be transferred to the consolidated profit-and-loss account only:<br>(a) where that difference corresponds to the expectation at the date of acquisition of unfavourable future results in that undertaking, or to the | 19.24 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:<br>(a) reassess the identification and measurement of the acquiree's assets, liabilities | 19.24 If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 19.14 exceeds the cost of the business combination (sometimes referred to as 'negative goodwill'), the acquirer shall:<br>(a) reassess the identification and measurement of the acquiree's assets, liabilities |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | expectation of costs which that undertaking would incur, in so far as such an expectation materializes; or<br>(b) in so far as such a difference corresponds to a realized gain. | and provisions for contingent liabilities and the measurement of the cost of the combination; and<br>(b) recognise immediately in profit or loss any excess which remains after the reassessment. | and provisions for contingent liabilities and the measurement of the cost of the combination; and<br>(b) recognise any excess which remains after the reassessment in profit or loss in the periods in which the non-monetary assets acquired are recovered. |
| Regulations, Sch 1 para 22 (4)<br>In any case where any goodwill acquired by a company is shown or included as an asset in the company's balance sheet there must be disclosed in a note to the accounts—<br>(a) the period chosen for writing off the consideration for that goodwill, and | See extracts supporting 19.23 above. | 19.25 [list of disclosures re business combinations] | **Add**<br>19.25 (g) the useful life of goodwill, if this exceeds five years, and supporting reasons for this. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| (b) the reasons for choosing that period. | | | |
| Regulations, Sch 1 para 8<br>Amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa. | 4. art. 7<br>Any set-off between asset and liability items, or between income and expenditure items, shall be prohibited. | 21.9 When some or all of the amount required to settle a provision may be reimbursed by another party (eg through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. | 21.9 When some or all of the amount required to settle a provision may be reimbursed by another party (eg through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| | | In the statement of comprehensive income, the entity may offset any reimbursement from another party against the expense relating to the provision.<br>28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In the statement of comprehensive income (or in the income statement, if presented), the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement. | 28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| Companies Act 2006, section 547<br>In the Companies Acts—<br>"called-up share capital", in relation to a company, means so much of its share capital as equals the aggregate amount of the calls made on its shares (whether or not those calls have been paid), together with—<br>(a) any share capital paid up without being called, and<br>(b) any share capital to be paid on a specified future date under the articles, the terms of allotment of the relevant shares or any other arrangements for payment of those shares; and | 4. art. 9<br>*Layout item*<br>A Subscribed capital unpaid<br>Of which there has been called (unless national law provides that called-up capital be shown under "Liabilities". In that case, the part of the capital called but not yet paid must appear as an asset either under A or under D(II)(5)). | 22.7 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments.<br>(a) If the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset.<br>(b) If the entity receives the cash or other resources before the equity instruments are issued, and | 22.7 An entity shall recognise the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments.<br>(a) [not used]<br>(b) If the entity receives the cash or other resources before the equity instruments are issued, and |

**Table II continued**

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| "uncalled share capital" is to be construed accordingly. | | the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received.<br>(c) To the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity. | the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received.<br>(c) To the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity. |
| Regulations, Sch 1, para 20<br>(1) Where the reason for which any provision was made in accordance with paragraph 19 have ceased to apply to any | 4. art. 35.1(c)<br>(dd) Valuation at the lower of the values provided for in (aa) and (bb) may not be continued if the reasons for which the | 27.28 An impairment loss recognised for goodwill shall not be reversed in a subsequent period. | 27.28 An impairment loss recognised for goodwill shall be reversed in a subsequent period if and only if the reasons for the |

## Table II continued

| UK Company law reference | EU Accounting Directive reference | IASB's IFRS for SMEs text | FRSME amended text |
|---|---|---|---|
| extent, that provision must be written back to the extent that it is no longer necessary. | value adjustments were made have ceased to apply. | | impairment loss have ceased to apply. |
| Regulations, Sch 1 para 13<br>The amount of any item must be determined on a prudent basis, and in particular—<br>(a) only profits realised at the balance sheet date are to be included in the profit and loss account... | 4. art. 31.1(c)<br>(aa) only profits made at the balance sheet date may be included. | 28.24 An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:<br>(a) recognise all actuarial gains and losses in profit or loss, or<br>(b) recognise all actuarial gains and losses in other comprehensive income. | 28.24 An entity is required to recognise all actuarial gains and losses in the period in which they occur. An entity shall:<br>(a) [not used]<br>(b) recognise all actuarial gains and losses in other comprehensive income. |

**Table III – Legal requirements in the Republic of Ireland**

This table shows the provisions in the Companies Acts 1963-2006 and various Regulations implementing EC Accounting Directives, corresponding to the provisions of the UK Companies Act 2006 ('the 2006 Act') and the Schedules to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the 2008 Regulations') referred to in the FRED. The principle pieces of relevant Irish legislation are:

Building Societies Act, 1989 (17 of 1989)
The Companies Act 1963 ('1963 Act');
The Companies (Amendment) Act 1983 ('1983 Act');
The Companies (Amendment) Act 1986 ('1986 Act');
The European Communities (Companies: Group Accounts) Regulations 1992 – SI 201 of 1992 ('Group Accounts Regulations 1992' or 'GAR 1992');
The European Communities (Credit Institutions: Accounts) Regulations 1992 ('CIR 1992'); and
The European Communities (Insurance Undertakings: Accounts) Regulations 1996 ('IUR 1996')

The Republic of Ireland's equivalent legislation to the Companies Act 2006 is composed of the Companies Acts 1963 to 2009.

There is no equivalent to the small companies regime in Irish law. In Ireland, there is an exemption from the preparation of group accounts for medium sized groups under the European Communities (Companies: Group Accounts) Regulations 1992. An Irish parent company within the scope of these Regulations is exempt from the requirement to prepare group accounts if it meets the size and other criteria set out in Regulation 7. The size criteria in summary require that the parent and subsidiaries together meet two of the following three conditions:

(i) balance sheet total does not exceed €7,618,428;
(ii) turnover does not exceed €15,236,858; and
(iii) average number of employees does not exceed 250.

Exemptions from preparing consolidated financial statements on the basis of size are not available to parent entities subject to the European Communities (Credit Institutions: Accounts) Regulations 1992 or the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

This appendix is intended as a reference guide to the corresponding provisions in Irish company law and does not purport to be comprehensive. Readers are advised to refer to the Irish legislation for an understanding of relevant legal points.

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| **Part 1 – explanation** | | | | | | | |
| 7.9 | Sch 1, para 36(4) | | | Para 22AA | Regulation 15 | Para 46A(4A) | |
| 10.28 | S395(1)(b) | Sections 148(2)(b) and 150(3)(b) | | | | | |
| 10.28 | S403(2)(b) | Section 150 | | | | | |
| 10.36 | S384(1)(b) or 384(2)(c) (d) and (e) | | | Section 8 | | Entities subject to CIR 1992 and IUR 1996 do not qualify as small under Irish company law | |
| 10.73 | Sch 1, para 36(4) | | | Para 22AA | Regulation 15 | Para 46A(4A) | |
| 10.79 | S396 | Sections 148(2) (a), (b) and 150(3) (a) ,(b) | | | | | |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| 10.82 | S407 | Section 150(C) | | | | | |
| 10.104 | Sch 1, para 36(4) | | | Para 22AA | Regulation 15 | Para 46A(4A) | |
| glossary | "small company" defined in s382 | | | Section 8 | | Entities subject to CIR 1992 and IUR 1996 do not qualify as small under Irish company law | |
| **Part 2 – draft standards** | | | | | | | |
| Para 7 | | | | Section 8 | | Entities subject to CIR 1992 and IUR 1996 do not qualify as small under Irish company law | |
| A2.9 | Investment Company | | | a corporate vehicle formed under Section 47(3) of the Companies | | | |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| | | | | Amendment) Act, 1983 and Section 58 of of the Companies Amendment) Act, 1986 and regulated by the Irish Financial Regulator | | | |
| A2.10 | S 382/383 def of small company/ group | | | Section 8 | | | |
| Section III, para 7 | Regulations Sch 6 para 2(2) | | | | Regulation 26 | Part II, para 3(2) and 3(3) | Part IV, para 3(2) and 3(3) |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| **Appendices – legal appendix** | | | | | | | |
| A1.5 | S395(1)(b) and 403(2)(b) | Sections 148(2) and 150(3) | | | | | |
| A1.7 | "accounts prepared in accordance with EU-adopted IFRS are within the scope of the IAS Regulation" | Sections 149 and 150A | | | | | |
| A1.10 | S384 | | | | Section 8 | Entities subject to CIR 1992 and IUR 1996 do not qualify as small under Irish company law | |
| A1.15 | S395 and s403 | S148 and s150 | | | | | |
| A1.16 | S407 | S150C | | | | | |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| A1.18 | Various Schedules of the Regulations | S148(2)(b), s149A, s150(3)(b), s150B | | | | Regulation 5(1B) and 7(5) | Regulation 5(1B) and 10(5) |
| A1.19 | Part 15, s410A, 411, 413, 415-419, 420-421, 494 | Section 149(A) (individual accounts); section 150B (group accounts) | | | | Regulation 5(1B) and 7(5) | Regulation 5(1B) and 10(5) |
| A1.21-1.23 | Sch 1 para 36 | | | Para 22A and 22AA | Regulation 15 | Para 46A of the Schedule Part I | |
| A1.24 | S395 and s 396 | S148 and s149 | | | | | |
| A1.30 | S434(2) | | | Para 19(3A) | | Regulation 6(4) | Regulation 9(4) |
| A1.30 | S408 | S148(7), (8) | | S7(1A), (1B) | | | |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| A1.31 | S610-615 | S62 | | | | | |
| A1.32 | Sch 1, para 13(a) | | | Section 5(c)(i) | | Para 19(a) of the Schedule part I | Section 7(c) |
| A1.33 | Sch 1, para 39, para 40(2) | | | Para 22CA, 22D(2) | | Para 46BA, 46C | |
| A1.34 | Sch 1, para 35 | | | Para 22 | | Para 44 of the Schedule part I | Para 21 of the Schedule part III |
| A1.35 | Sch 6 para 10 | | | | Regulation 22 | Para 11 of the Schedule part II | Para 10 of the Schedule part IV |
| A1.39 | S396 and Sch 1 of the Regulations | | | Section 4, Schedule | | Regulation 5 and part I of the Schedule | Regulation 6 and part I of the Schedule |
| A1.39 | S404 and Sch 6 para 20 | | | | Regulation 15 and para 10 of the Schedule | Regulation 7 and para 2.2 | Regulation 10 and para 24 of |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| | | | | | | of part II of the Schedule | part IV of the Schedule. |
| Accounts formats | general* | | | Section 4(1), and Schedules | Regulation 15 and para 10 of the Schedule | Regulation 5(1A) and para 1(1) of Part I of the Schedule | Regulation 6 and the Schedule |
| A1.47 | Profits available for distribution | | Part IV | | | | |
| Table II | Sch 6 para 2 | | | | Regulation 26 | Para 3(3) of the Schedule | Para 3(3) of the Schedule |
| Table II | Sch1 para 36 | | | Section 22A and22AA | Regulation 15 | Para 46A of part I of the Schedule | |

* *The accounts formats in the Republic of Ireland are as set out in the references given here and differ in many details from those in UK Company law.*

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| Table II | Sch 6 para 21 | | | | Regulation 33(1) | Para 23 of Part II of the Schedule | Para 22 of part IV of the Schedule |
| Table II | Sch 1 para 22 | Part II, paragraph 6 | | Para 5 to 7 and 9 of the Schedule | Regulation 15 | Para 24, 25, 26 and 28 of Part I of the Schedule | Para 2 to 4 of part II of the Schedule |
| Table II | Sch 6 para 18(1) | | | | Regulation 32 | Para 20 of Part II of the Schedule | Para 20 of Part IV of the Schedule |
| Table II | Sch 6 para 19(1) | | | | Regulation 34 | Para 21 of Part II of the Schedule | Para 21 of Part IV of the Schedule |
| Table II | Sch 6 para 21(1) | | | | Regulation 33(1) | Para 23 of Part II of the Schedule | Para 22 of Part IV of the Schedule |
| Table II | Sch 1 para 13 | | | Section 5(c) | Regulation 28 | Para 19 of Part I of the Schedule | Regulation 7 |

## Table III continued

| Paragraph | 2006 Act and the 2008 Regulations | 1963 Act | 1983 Act | 1986 Act | GAR 1992 | CIR 1992 | IUR 1996 |
|---|---|---|---|---|---|---|---|
| Table II | S547 | | Section 2 | | | | |
| Table II | Sch 1, para 20 | | | Para 7(3) of the Schedule | Regulation 15 | Para 26(3) of Part I of the Schedule | Para 3(4) of Part II of the Schedule. |
| Table II | Sch 1 para 8 | | | Section 4(11) | | | |

# Appendix 2

## Withdrawal of current accounting standards

# APPENDIX 2: WITHDRAWAL OF CURRENT ACCOUNTING STANDARDS

A2.1 Should the proposals set out in this FRED proceed, then it is the ASB's intention to withdraw the following Statements of Standard Accounting Practice (SSAPs) Financial Reporting Standards (FRS) and Urgent Issues Task Force Abstracts (UITF abstracts):

| | |
|---|---|
| SSAP 4 | 'Accounting for government grants' |
| SSAP 5 | 'Accounting for value added tax' |
| SSAP 9 | 'Stocks and long-term contracts' |
| SSAP 13 | 'Accounting for research and development' |
| SSAP 19 | 'Accounting for investment properties' |
| SSAP 20 | 'Foreign currency translation' |
| SSAP 21 | 'Accounting for leases and hire purchase contracts; including the Guidance Notes on SSAP 21' |
| SSAP 25 | 'Segmental reporting' |
| FRS 1 | 'Cash flow statements' (revised 1996) |
| FRS 2 | 'Accounting for subsidiary undertakings' |
| FRS 3 | 'Reporting financial performance' |
| FRS 4 | 'Capital instruments' |
| FRS 5 | 'Reporting the substance of transactions' |
| FRS 6 | 'Acquisitions and mergers' |
| FRS 7 | 'Fair values in acquisition accounting' |
| FRS 8 | 'Related party disclosures' |
| FRS 9 | 'Associates and joint ventures' |
| FRS 10 | 'Goodwill and intangible assets' |
| FRS 11 | 'Impairment of fixed assets and goodwill' |
| FRS 12 | 'Provisions, contingent liabilities and contingent assets' |
| FRS 13 | 'Derivatives and other financial instruments: disclosures' |

| | |
|---|---|
| FRS 15 | 'Tangible fixed assets' |
| FRS 16 | 'Current tax' |
| FRS 17 | 'Retirement benefits' |
| FRS 18 | 'Accounting policies' |
| FRS 19 | 'Deferred tax' |
| FRS 20 (IFRS 2) | 'Share-based payment' |
| FRS 21 (IAS 10) | 'Events after the balance sheet date' |
| FRS 22 (IAS 33) | 'Earnings per share' |
| FRS 23 (IAS 21) | 'The effects of changes in foreign exchange rates' |
| FRS 24 (IAS 29) | 'Financial reporting in hyperinflationary economies' |
| FRS 25 (IAS 32) | 'Financial instruments: Presentation' |
| FRS 26 (IAS 39) | 'Financial instruments: Recognition and Measurement' |
| FRS 28 | 'Corresponding amounts' |
| FRS 29 (IFRS 7) | 'Financial instruments: disclosures' |
| FRS 30 | 'Heritage assets' |
| UITF abstract 4: | 'Presentation of long-term debtors in current assets' |
| UITF abstract 5: | 'Transfers from current assets to fixed assets' |
| UITF abstract 9: | 'Accounting for operations in hyper-inflationary economies' |
| UITF abstract 11: | 'Capital instruments: issuer call options' |
| UITF abstract 15: | (revised 1999) 'Disclosure of substantial acquisitions' |
| UITF abstract 19: | 'Tax on gains and losses on foreign currency borrowings that hedge an investment in a foreign enterprise' |
| UITF abstract 21: | 'Accounting issues arising from the proposed introduction of the euro' |
| UITF abstract 22: | 'The acquisition of a Lloyd's business' |
| UITF abstract 23: | 'Application of the transitional rules in FRS 15' |
| UITF abstract 24: | 'Accounting for start-up costs' |
| UITF abstract 25: | 'National Insurance contributions on share option gains' |
| UITF abstract 26: | 'Barter transactions for advertising' |

| | |
|---|---|
| UITF abstract 27: | 'Revision to estimates of the useful economic life of goodwill and intangible assets' |
| UITF abstract 28: | 'Operating lease incentives' |
| UITF abstract 29: | 'Website development costs' |
| UITF abstract 31: | 'Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate' |
| UITF abstract 32: | 'Employee benefit trusts and other intermediate payment arrangements' |
| UITF abstract 34: | 'Pre-contract costs' |
| UITF abstract 35: | 'Death-in-service and incapacity benefits' |
| UITF abstract 36: | 'Contracts for sales of capacity' |
| UITF abstract 38: | 'Accounting for ESOP trusts' |
| UITF abstract 39: | '(IFRIC Interpretation 2) Members' shares in co-operative entities and similar instruments' |
| UITF abstract 40: | 'Revenue recognition and service contracts' |
| UITF abstract 41: | '(IFRIC Interpretation 8) Scope of FRS 20 (IFRS 2)' |
| UITF abstract 42: | '(IFRIC Interpretation 9) Reassessment of embedded derivatives' |
| UITF abstract 44: | (IFRIC Interpretation 11) 'FRS 20 (IFRS 2) Group and treasury share transactions' |
| UITF abstract 45: | (IFRIC Interpretation 6) 'Liabilities arising from participating in a specific market – Waste electrical and electronic equipment' |
| UITF abstract 46: | '(IFRIC Interpretation 16) Hedges of a net investment in a foreign operation' |

A2.2 The ASB will also not proceed with developing the following Financial Reporting Exposure Drafts (FREDs):

FRED 22 'Revision of FRS 3 'Reporting Financial Performance' '
FRED 28 'Inventories: construction and service contracts'
FRED 29 'Property, plant and equipment: Borrowing costs'
FRED 32 'Disposal of non-current assets and presentation of discontinued operations'
FRED 36 'Business combinations'
FRED 37 'Intangible assets' (IAS 38) and FRED 38 'Impairment of assets' (IAS 36)
FRED 39 'Amendments to FRS 12 'Provisions, contingent liabilities and contingent assets' and FRS 17 'Retirement benefits''
Leases: implementation of a new approach
IASB Exposure draft of a proposed IFRS for small and medium-sized entities (Issued April 2007)

A2.3 The ASB will also withdraw the following statements:

Reporting Statement: 'Retirement Benefits – Disclosures'
Statement: 'Half-Yearly Financial Reports'

A2.4 The ASB has also contacted the Statement of Recommended Practice ('SORP') making bodies to inform them of its recommendations should the proposals set out in this FRED proceed. Details of the ASB proposal for the SORPs are set out in section 8 of this FRED.

A2.5 The ASB will retain 'FRS 27 Life Assurance' and UITF Abstract 43 'The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985'.

# Appendix 3

## Proposed consequential amendments to the Financial Reporting Standard for Smaller Entities (FRSSE)

# APPENDIX 3: PROPOSED CONSEQUENTIAL AMENDMENTS TO THE FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES (FRSSE)

The following consequential amendments are proposed to the FRSSE:

A3.1 Paragraph 1 of the Status of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

The Financial Reporting Standard for Smaller Entities (effective [July 2013] ~~April 2008~~) – the FRSSE – prescribes the basis, for those entities within its scope that have chosen to adopt it, for preparing and presenting their financial statements. The definitions and accounting treatments are consistent with the requirements of companies legislation and, for the generality of small entities, are the same as those previously required by other accounting standards or a simplified version of those requirements. ~~The disclosure requirements exclude a number of those stipulated in other accounting standards~~.

A3.2 Paragraph 2 of the Status of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

Reporting entities that apply the FRSSE are exempt from complying with other Financial Reporting Standards. ~~accounting standards. (Statements of Standard Accounting Practice and Financial Reporting Standards) and Urgent Issues Task Force (UITF) Abstracts, unless preparing consolidated financial statements, in which case certain other accounting standards apply, as set out in paragraph 16.1.~~

A3.3 Paragraph 4 of the Status of the FRSSE is deleted and a new paragraph is inserted (underlined text is inserted):

The only difference between this version of the FRSSE (effective [July 2013]) and the FRSSE (effective April 2008) are in respect of the [draft] revised reporting framework introduced into the UK effective [July 2013]. As part of the [draft] revised reporting framework the ASB is withdrawing most extant Financial Reporting Standards and Urgent Issues Task Force (UITF) Abstracts. It has made consequential amendments to the FRSSE where it previously referred to withdrawn standards or Abstracts.

A3.4 Paragraph 5 of the Status of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

Financial statements will generally be prepared using accepted practice and, accordingly, for transactions or events not dealt with in the FRSSE, smaller entities should first have regard to their own existing accounting policies. Where an entity applying the FRSSE undertakes a new transaction for which it has no existing policy, in developing a new policy it should have regard to the Financial Reporting Standard for Medium-sized Entities ('FRSME'), ~~other accounting standards and UITF Abstracts~~, not as a mandatory document~~s~~, but as a means of establishing current practice.

A3.5 Paragraph 6 of the Status of the FRSSE is amended as follows (deleted text is struck-through underlined text is inserted):

When considering the application of accounting standards, including the FRSME, and UITF Abstracts to smaller entities, the Accounting Standards Board has had, and will continue to have, regard to the following criteria ...

A3.6 Paragraph 10 of the Status of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

Reporting entities that are entitled to adopt the FRSSE, but choose not to do so, <u>are required to apply the requirements of the [draft] FRS 'Application of Financial Reporting Requirements'.</u> ~~should apply Statements of Standard Accounting Practice (SSAPs), other Financial Reporting Standards (FRSs) and UITF Abstracts when preparing financial statements intended to give a true and fair view of the financial position and profit or loss of the entity.~~

A3.7 Paragraph 11 of the Status of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

Statements of Recommended Practice (SORPs) and other equivalent guidance developed or revised after the FRSSE was first issued (in November 1997) may specify the circumstances, if any, in which entities in the industry or sector addressed in the SORP or equivalent guidance may adopt the current version of the FRSSE. Financial statements that purport to comply with the requirements of ~~SSAPs,~~ FRSs <u>including the FRSME or EU-adopted IFRS</u> (other than the FRSSE) and UITF Abstracts, should also observe those requirements, rather than adopt the FRSSE.

A3.8 Paragraph 2.6 of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

The financial statements shall state that they have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective <u>[July 2013]</u> ~~April 2008~~).

A3.9 The footnote to paragraph 2.6 of the FRRSE is amended as follows (deleted text is struck-through, underlined text is inserted):

This statement may be included with the note of accounting policies or, for those entities taking advantage of the exemptions for small companies in companies legislation, in the statement required by companies legislation to be given on the balance sheet. For example, in Great Britain the combined statement could read as follows "These accounts have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective [July 2013] ~~April 2008~~)". If abbreviated accounts are also to be prepared, the statement referring to the Financial Reporting Standard for Smaller Entities (effective [July 2013] ~~April 2008~~) shall be included with the note of accounting policies so that it is reproduced in the abbreviated accounts.

A3.10 Paragraph 16.2 of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

~~Where the reporting entity is preparing **consolidated financial statements**, it should regard as standard the accounting practices and disclosure requirements set out in FRSs 2, 6, 7 and, as they apply in respect of **consolidated financial statements**, FRSs 5, 9, 10*, 11 and 28~~. Where the reporting entity is part of a group that prepares publicly available **consolidated financial statements**, ~~it is entitled to the exemptions given in FRS 8 paragraph 3(a)-(c)~~ disclosure is not required in the consolidated financial statements, of any transactions or balances between group entities that have been eliminated on consolidation.

* ~~*FRS 10 and, as directed by FRS 10, FRS 11 need be applied only in respect of purchased goodwill arising on consolidation*~~.

A3.11 Paragraph 19.1 of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

The accounting practices set out in this Financial Reporting Standard for Smaller Entities (effective [July 2013] ~~April 2008~~) shall be regarded as standard in respect of financial statements relating to accounting periods beginning on or after [1 July 2013] ~~6 April 2008~~. Earlier application is permitted.

A3.12 Paragraph 20.1 of the FRSSE is amended as follows (deleted text is struck-through, underlined text is inserted):

The Financial Reporting Standard for Smaller Entities (effective [July 2013] ~~April 2008~~) supersedes the FRSSE (effective April 2008 ~~January 2007~~).

A3.13 In Part C 'Definitions' the definition of 'Close family' is deleted and is replaced with:

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

A3.14 In Part C 'Definitions' paragraph the definition of a related party is deleted and replaced with (underlined text is inserted):

<u>A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').</u>

(a) <u>A person or a close member of that person's family is related to a reporting entity if that person:</u>

<u>(i)</u> <u>has control or joint control over the reporting entity;</u>

<u>(ii)</u> <u>has significant influence over the reporting entity; or</u>

<u>(iii)</u> <u>is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.</u>

(b) <u>An entity is related to a reporting entity if any of the following conditions applies:</u>

<u>(i)</u> <u>The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).</u>

<u>(ii)</u> <u>One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).</u>

<u>(iii)</u> <u>Both entities are joint ventures of the same third party.</u>

<u>(iv)</u> <u>One entity is a joint venture of a third entity and the other entity is an associate of the third entity.</u>

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A3.15 The final sentence of paragraph 35 to Appendix IV 'Development of the FRSSE' is deleted. Appendix V of the FRSSE (effective 2008) is deleted in full.

A3.16 In Appendix IV 'Development of the FRSSE' after paragraph 37, paragraph 38 and 39 are renumbered 40 and 41 and new paragraphs 38 and 39, including the heading, are inserted as follows:

*The FRSSE (effective [July 2013])*

In [July 2013] the ASB amended the FRSSE as a consequence of the significant changes that were made to UK Financial Reporting Standards at this date. In [July 2013] the ASB revised extant Financial Reporting Standards, withdrawing most of its existing financial reporting standards and supplementary literature and replacing it with a revised financial reporting framework based on International Financial Reporting Standards. The FRSSE (effective April 2008) was amended as a consequence of these changes.

The consequential amendments to the FRSSE were to update references in the FRSSE (effective April 2008) to accounting standards that were withdrawn. Based on advice, the ASB removed the reference to consolidated financial statements. In addition the ASB explained that where an entity applying the FRSSE undertakes a new transaction for which it has no existing accounting policy it should have regard to the FRSME, not as a mandatory document, but as a means of establishing current practice.

A3.17 Renumbered paragraphs 40 and 41 are amended as follows (deleted text is struck-through, underlined text is inserted):

The FRSSE is designed to provide smaller entities with a single accounting standard that is focused on their particular circumstances. Smaller entities that choose to adopt the FRSSE are exempt from other accounting standards and UITF Abstracts ~~(with certain exceptions for those small groups preparing consolidated financial statements)~~. The Board accepts that the FRSSE is not comprehensive and that there may be issues of general application on which guidance will be sought. Preparers may come across transactions on which accounting guidance is not provided in the FRSSE. This raises the question of whether, in the absence of guidance within the FRSSE, preparers and auditors would be required to follow all ~~SSAPs,~~ other FRSs (including the FRSME), and UITF Abstracts to the extent that they provide guidance on transactions of relevance to the smaller entity. The Board's view, formulated after consultation with legal advisers and others, is that users expect financial statements to be prepared using accepted practice. If a practice was clearly established and accepted, it should be followed unless there were good reasons to depart from it. Accordingly, preparers and auditors should have regard to ~~SSAPs,~~ FRSs (including the FRSME), and UITF Abstracts not as mandatory document~~s~~, but as a means of establishing current practice.

Some respondents asked that there should be specific cross references within the FRSSE to SSAPs, other FRSs and

UITF Abstracts (the equivalent cross references would now be to the FRSME). The Board rejected this suggestion because the inclusion of cross-references would lead to preparers and auditors having to consider those other pronouncements in all cases, as well as the FRSSE, thereby lengthening checklists and adding to the burden. Furthermore, it is recognised that as new FRSs are issued (including introducing the FRSME) that amend generally accepted accounting practice as it applies to larger entities, it may not be appropriate for such rules to apply to smaller entities. ~~An example that has been frequently cited, but on which the Board has not established a firm position, is that some of the likely proposals on marking to market fixed interest instruments, while appropriate for larger entities, would not be appropriate for smaller entities. Because generally accepted accounting practice had not been established for all in this area then there would not be an expectation that smaller entities should have regard to such a rule.~~

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