NEW YEAR = NEW UK ACCOUNTING RULES FOR SMEs

Since listed companies in the UK moved onto International Accounting Standards (IFRS) more than a decade ago, there has been much discussion, debate, and delay around new accounting rules for the rest of the corporate world.

Thankfully, it has never been the intention to enforce full international standards on everyone – this would lead to some very complicated and long sets of accounts, along with the associated costs. Hence the development of "new UK GAAP" (for non-accountants: generally accepted accounting practice).

So moving into 2016, we can all breathe a sigh of relief that there's a single set of new rules for SMEs, they avoid the "nasties" of the full international rules, and there's no more change to come. Right?

Well … partly, both in terms of how complex things are going to get, and on where your company fits into the reporting framework in terms of whether there's more change to come.

I have a December 2015 year-end, what changes for me?

For the smallest and largest companies, in short not much.

Larger entities following full IFRS (or the version of it available to subsidiaries), will continue to do so.

Those qualifying as 'small' and currently adopting FRSSE accounting (Financial Reporting Standard for Smaller Entities) should be able to do so in the December 2015 accounts, albeit for the last time.

In general, most other companies will now move over onto the new standard FRS102.

First the good bit – at 335 pages although it is not a short read, compared to full IFRS which stretches over more than 3,500 pages, the simplification box is clearly ticked to some extent.

The bad news is that there are some significant changes compared to the old rules, not least the introduction of some controversial and difficult aspects of IFRS, notably "fair value" accounting.

Fair value accounting – sounds complicated?

I'm afraid so. It will mean that certain items that were either not included on the balance sheet, or were recorded at the cost paid for them, are now required to be "marked to market", i.e. included at the value they could theoretically be bought or sold for on the open market.

Movements in this fair value from year to year will in many cases be included in the profit or loss figure reported for the year, and also impact on the company's taxable profits.

For this brief update I won't try and cover chapter and verse of what's in scope. Instead, here's a "heads-up" of *some* of the items impacted:

- Forward currency contracts
- Interest rate swaps, caps and collars
- Convertible debt
- Debt where the interest rate is not at market rates (can include fixed term intercompany balances and directors' loan accounts, even when they are interest-free)

There are of course other areas where the rules change, but again for this short update rather than being exhaustive, examples to watch out for are:

- Accruals for holiday pay: now required where the holiday year and financial year do not coincide
- Business combinations: goodwill on acquisitions now needs to be reviewed to recorded separately recognisable intangible assets (such as trademarks and customers lists)
- Investment properties: required to be carried at valuation, with gains and losses included in P&L
- Deferred tax: more likely to be more required, particularly on asset revaluations, and goodwill arising on acquisitions
- Lease incentives: most commonly rent-free periods, which instead of being spread over the period to the first rent review, are now spread over the full lease period
- Foreign exchange: where forward contracts are used, the contract rate can no longer be used to translate currency balances, instead the closing spot rate must be used

So there are more changes still to come for 2016?

For small companies the short answer is, I'm afraid, yet another 'yes'. And more than one. (And if you really wanted to, some of the following could be early adopted from 2015).

1. More companies will qualify as small

The small company turnover threshold goes up from £6.5m to £10.2m, and gross assets from £3.26m to £5.1m, with the employee limit staying at 50 (two of the three needed to qualify).

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Secondly the rules change where there is a PLC in the group – this now only matters where the PLC is publically traded.

These impact on not just the content and complexity of the accounts themselves, but also mean more companies may be exempt from the requirement to be audited. Although the increased size limits are in force for accounting purposes for December 2016 year ends, the government is yet to confirm whether they will apply for determining audit exemption.

2. The FRSSE is being withdrawn

Yet more choices for small entities for 2016:

i. Follow the full requirements of FRS102

An option, but others may well be more attractive.

ii. Follow section 1A of FRS 102

This is FRS102 as above but with disclosure simplifications mainly for previous followers of the FRSSE:

- Minimum requirements are a P&L, balance sheet and certain note disclosures required by law (plus companies act requirement for directors' report in shareholder accounts)
- True & fair view is still required (so more disclosure may be necessary)
- Some disclosures are encouraged by the standard (but not mandated)

But, the accounting differences to old UK GAAP as outlined above will now also apply to small entities, unless …

iii. For "micro-entities", follow FRS105

For very small entities, a further simplified standard applies if you have two of three from turnover less than £0.632m, gross assets £0.316m and 10 employees.

For those that qualify, the "bang for your buck" in terms of making things easier is significantly better than FRS102 section 1A. Not only are the following not required, they are not even allowed:

- Using fair values or revaluing assets
- Capitalising borrowing costs or development costs
- Accounting for deferred tax
- Accounting for share-based payments

In addition, where forward contracts are used, the contracted rate must be used to translate the balance sheet item, and the issues relating to debts with non-market interest are also deleted.

3. An end to abbreviated accounts

Nearly there now..!

The final change for 2016 sees changes to the shape of the accounts that have to be prepared for shareholders, and put on public record at Companies House.

The key change replaces the concept of abbreviated accounts with "abridged" accounts.

Under the new rules, it's still possible to file a version of the abridged accounts that includes only a balance sheet and related notes, so quite similar to the previous abbreviated accounts.

But … the key point to watch for here is that all shareholders will need to formally agree to the abridgement of the accounts, each year this option is taken. Not a problem for many wholly or family-owned businesses, but could be more tricky where the shareholder base is more diverse.

Thanks for bearing with me!

For a brief update, most of which relates to simplification of accounting requirements, if you're thinking the above is actually quite complicated, then firstly you're not alone, and secondly … please don't shoot the messenger!

I hope that helps but we remain at your disposal if a separate discussion on any of the details would be helpful.

With best wishes for 2016 from all at Hentons.

David Caseldine
Partner

T **0113 234 0000**
F **0113 246 9200**
E **david@hentons.com**