BOURNER BULLOCK

Chartered Accountants

The Impact for Micro Entities

The concept of a "micro-entity" was introduced for periods ending on or after 30 September 2013, but this new category has not been particularly popular.

However, with the advent of FRS 102 Section 1A, we could now be about to witness the new dawn for micro-entities. Previously included within an amendment to the existing FRSSE (effective April 2008), the accounting requirements for micro-entities are now included in a new standard that has been released aimed purely at those qualifying entities. This is FRS 105.

Micro-Entity Thresholds (entities need to meet 2 out of the 3 criteria for 2 years running)

	Micro
Turnover	Not more than £632,00
Gross assets (fixed and current)	Not more than £316,000
Average Number of Employees	Not more than 10

NB: There is list of ineligibility criteria that needs to be checked when considering the use of the micro entity regime.

A New Accounting Standard - FRS 105

FRS 105 will be based on the recognition and measurement requirements of FRS 102, other than where an accounting treatment is prohibited by legislation or where changes have been made to make accounting treatments more consistent with the size of entity that the standard applies to. This will ultimately mean that all 'New UK GAAP' standards are based on a consistent framework (FRS 102).

FRS 105 is available for immediate use – it can be applied to any accounting period ending on or after 30 September 2013. However, as with FRS 102, there is a transition impact of moving on to FRS 105 which will affect the opening reserves of the comparative period and will result in a restatement of the comparative balance sheet.

The accounting treatment generally is much simpler under FRS 105 when compared with FRS 102, including:

- Micro-entities cannot revalue assets under the alternative accounting rules nor can they fair value account (so all assets, including investment properties, will be carried at depreciated historical cost);
- No discounting of related party loan balances is necessary;
- There is no recognition of deferred tax;
- A number of accounting policy "decisions" or options are removed;
- Financial instruments will be carried at what was paid for them (in most circumstances)

One of the other benefits of the micro-entity regime is the reduced disclosure required and the fact that, despite only including a maximum of 2 notes to the accounts, a set of accounts drawn up under this regime will be deemed to show a true and fair view.

However, such a small set of accounts could be problematic if an entity is looking to raise finance in future.

Please note that the use of the micro-entity regime is optional – a small company that qualifies as micro does not have to use the micro-entity regime. If advantage is not taken of this regime, then Section 1A of FRS 102 is likely to be the most appropriate standard to follow.

There are many challenges for companies and other entities to tackle over the coming months. The above details are only a general summary and cannot of course cover every eventuality or your own specific circumstances.

Please speak to your usual contact to ensure that we can provide advice tailored for you and help you with your transition to the new accounting framework.

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