Chartered Accountants Ireland or CCAB-I material

Technical Releases

TR 04/2018 - Companies Act 2014 - Small and micro companies

August 2018

- **Statutory Financial Statements**
- **Directors' Reports**
- **Abridged Financial Statements**

The 'small companies regime' and 'micro companies regime' for the preparation and filing of financial statements were introduced into the Companies Act 2014 by the Companies (Accounting) Act 2017. The Companies (Accounting) Act 2017 is a significant and new piece of legislation whose interpretation and meaning is as yet untested. This Technical Release focuses on some key aspects regarding the small companies regime and micro companies regime but does not purport to identify all changes from existing company law or all provisions introduced by the Companies (Accounting) Act 2017. Chartered Accountants Ireland may issue further commentary in due course.

Contents

Section	Subject
1	Introduction
2	Companies qualifying for the small companies regime and the micro companies regime
3	The preparation of statutory financial statements under the small and micro companies regimes
4	Directors' reports
5	Form and content of statutory financial statements – companies adopting the small companies regime
6	Form and content of statutory financial statements – companies adopting the micro companies 6 regime
7	Abridged financial statements
Appendices	
1	Ineligible entities
2	Balance Sheet and Profit and Loss Account Formats from Schedule 3A and Schedule 3B to Companies Act 2014

1.Introduction

Purpose of this Technical Release

The Companies (Accounting) Act 2017 ('CA 2017') made a range of amendments to the accounting and filing requirements of the Companies Act 2014 ('CA 2014'). This Technical Release is intended as a signpost to assist with the preparation of statutory financial statements of ***small and micro companies***. CA 2017 has ***reduced the number of disclosure requirements*** for small and micro companies compared with larger companies. The Technical Release discusses these disclosures and also highlights some key aspects of the revised legal requirements regarding ***directors' reports*** and ***abridged financial statements*** applying to small and micro companies.

The provisions of CA 2017 commenced by reference to financial years beginning on or after 1 January 2017, with early adoption permitted.

Background and scope

CA 2017 was signed into law on 17 May 2017 and the related commencement order (SI No 246 of 2017) was signed on 2 June 2017. The 'appointed' day on which CA 2017 came into operation was 9 June 2017[1]. The provisions relating to the preparation of financial statements of a company commence by reference to financial years beginning on or after 1 January 2017. Early adoption of 'specified provisions', including adopting the small companies regime and the micro companies regime, is permitted for financial statements for financial years commencing on or after 1 January 2015[2]. Such 'specified provisions', and the provisions regarding the early application of these, are outlined in section 277A of Companies Act 2014, as amended by CA 2017 ('CA 2014 (as amended)').

CA 2017 introduced the small companies regime ('SCR') and the micro companies regime ('MCR') for the preparation and filing of financial statements into CA 2014. The simpler requirements of the SCR and the MCR derive from the 2013 EU Accounting Directive and are designed to reduce the administrative burdens on small and micro companies across Europe. A company qualifying for the SCR or the MCR can adopt the simpler requirements of those regimes in respect of financial statements and reports for a financial year in relation to which that company qualifies as a small company or micro company. As part of the SCR and MCR, CA 2017 introduced Schedules 3A and 4A to CA 2014 setting out accounting principles and rules on form and content of financial statements for small companies and groups respectively and Schedule 3B relating to micro companies. Small and micro companies adopting the SCR or MCR comply with the requirements of Schedules 3A/4A or 3B respectively. CA 2017 also introduced into Part 6 of CA 2014 some new disclosure requirements that are applicable to small and micro companies, and a number of disclosure exemptions for small and micro companies.

This Technical Release focuses on the main requirements of CA 2014 (as amended), regarding the form and content of Companies Act entity financial statements[3] of companies adopting the SCR and MCR[4]. It deals with the presentation and disclosure requirements of CA 2014 (as amended) for the SCR and MCR but not the recognition and measurement requirements. It is intended to set out some of the key requirements and not to be an in-depth analysis of all the relevant provisions of CA 2014 (as amended).

Unless otherwise stated, all section and schedule references in this Technical Release are to the Companies Act 2014 as amended by the Companies (Accounting) Act 2017, where applicable ('CA 2014 (as amended)')[5]. The abbreviation 'CA 2014 (as amended)' is used for clarity only for the purpose of this Technical Release, and references in financial statements and reports will continue to be to the 'Companies Act 2014'.

In addition to complying with the relevant provisions of CA 2014 (as amended) in preparing small or micro company statutory financial statements, directors are required to comply with 'applicable accounting standards'[6] (e.g. FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ('FRS 102') for small companies and FRS 105 *The Financial Reporting Standard applicable to the Micro- entities Regime* ('FRS 105') for micro companies). In this regard, this Technical Release assumes that the preparer of financial statements of a small company adopting the SCR is applying Section 1A of FRS 102 and that the preparer of financial statements of a micro company adopting the MCR is applying FRS 105[7]. The interaction of FRS 102 and FRS 105 with the requirements of CA 2014 (as amended) is noted in section 3 of this Technical Release. This Technical Release does not encompass the requirements of such applicable accounting standards and reference should be made to the relevant FRS in preparing the financial statements.

This Technical Release is written in the context of a private company limited by shares ('LTD'). Certain other company types (e.g. a company limited by guarantee ('CLG')) may also meet the requirements to qualify for the SCR or the MCR. When such companies are adopting the SCR or the MCR, additional reference to relevant Parts of CA 2014 (as amended) will be necessary (e.g. Part 18 of CA 2014 (as amended) for CLGs).

2.Companies Qualifying for the Small Companies Regime and the Micro Companies Regime

I.Companies Qualifying for the Small Companies Regime

Small Companies Regime ('SCR')

Where a company qualifies as a small company in accordance with section 280A or as a small holding company in accordance with section 280B, then different rules may be applied (in the Act referred to as the '**small companies regime**') by the company **in respect of financial statements and reports** for a financial year in relation to which that company qualifies as a small company.

Qualification as a small company

A.Under section **280A**, a **company** that is neither a holding company nor an **ineligible company**[8] qualifies as a small company if:

•In relation to its **first financial year**, the qualifying conditions are satisfied in respect of that year;

•In relation to a **subsequent financial year** (referred to as 'relevant year') if the qualifying conditions:

•are satisfied in respect of the relevant year and the financial year immediately preceding the relevant year;

•are satisfied in respect of the relevant year and the company qualified as a small company in relation to the financial year immediately preceding the relevant year; or

•were satisfied in the financial year immediately preceding the relevant year and the company qualified as a small company in relation to that preceding financial year.

In simple terms, a company that qualifies as small ceases to qualify as small if two of the three qualifying conditions are breached for two consecutive years. A company that loses its status as small can only regain that status when it meets two out of the three qualifying conditions for two consecutive years.

For a company which is not ineligible, the small company qualifying conditions are satisfied if, in relation to a financial year, it fulfils two or more of the following requirements:

(a)the amount of **turnover** of the company does not exceed €12 million[9];
(b)the **balance sheet total**[10] of the company does not exceed €6 million;
(c)the **average number of employees** does not exceed 50[11].

CA 2017 increased the turnover and the balance sheet total qualifying conditions for a small company from €8.8 million to €12 million for turnover, and from €4.4 million to €6 million for balance sheet total.

B.Under section **280B**, a **holding company** qualifies as a small company in relation to a financial year only if the group, in respect of which it is the holding company, qualifies as a small group in relation to the same financial year, and no member of the group is an **ineligible entity**[12].

A group (that is not excluded by virtue of having a member which is an ineligible entity) qualifies as a small group if:

•In relation to the **first financial year of the holding company**[13], the qualifying conditions are satisfied in respect of that year;
•In relation to a **subsequent financial year** (referred to as 'relevant year') of the holding company if the qualifying conditions:
  •are satisfied in respect of the relevant year and the financial year immediately preceding the relevant year;
  •are satisfied in respect of the relevant year and the group qualified as a small group in relation to the financial year immediately preceding the relevant year; or
  •were satisfied in the financial year immediately preceding the relevant year and the group qualified as a small group in relation to that preceding financial year.

Put simply, a group that qualifies as small ceases to qualify as small if two of the three qualifying conditions are breached for two consecutive years. A group that loses its status as small can only regain that status when it meets two out of the three qualifying conditions for two consecutive years.

The qualifying conditions for a small group, which has no member that is an ineligible entity, are satisfied by a group if, in relation to a financial year, it fulfils two or more of the following requirements:

(a)the aggregate amount of **turnover** of the group does not exceed €12 million net (or €14.4 million gross)[14];
(b)the aggregate **balance sheet total**[15] of the group does not exceed €6 million net (or €7.2 million gross);
(c)the aggregate **average number of employees** of the group does not exceed 50.

The aggregate figures referred to in (a) to (c) above are ascertained by aggregating the equivalent figures determined in accordance with section 280A for each member of the group (section 280B(7)).

Where a group proposes to satisfy the qualifying conditions referred to above on the basis of the requirements of paragraphs (a) and (b) it may do so on the basis of *either* the net figures or the gross figures respectively for both of the said paragraphs (section 280B(8)). 'Net' means after set-offs and other adjustments made to eliminate group transactions in accordance with Schedule 4[16] and 'gross' means without those set-offs and other adjustments.

Section 280B(9) provides that the figures for each subsidiary undertaking shall be those included in its entity financial statements for the relevant financial year—(a) if its financial year ends with that of the holding company, that financial year, and (b) if not, its financial year ending last before the end of the financial year of the holding company.

II.Companies Qualifying for the Micro Companies Regime

Micro Companies Regime ('MCR')

Where a company qualifies as a micro company in accordance with section 280D, then different rules may be applied (in the Act referred to as the '**micro companies regime**') by the company **in respect of financial statements and reports** for a financial year in relation to which that company qualifies as a micro company.

Qualification as a micro company

Under section **280D**, a **company** that is neither:

(a)an investment undertaking[17];
(b)a financial holding undertaking[18];
(c)a holding company that prepares group financial statements; nor

(d)a subsidiary that is included in the consolidated financial statements of a higher holding undertaking, qualifies as a micro company if:

•In relation to its **first financial year**, the qualifying conditions are satisfied in respect of that year;

•In relation to a **subsequent financial year** (referred to as 'relevant year') if the qualifying conditions:

- •are satisfied in respect of the relevant year and the financial year immediately preceding the relevant year;
- •are satisfied in respect of the relevant year and the company qualified as a micro company in relation to the financial year immediately preceding the relevant year; or
- •were satisfied in the financial year immediately preceding the relevant year and the company qualified as a micro company in relation to that preceding financial year.

The qualifying conditions for a micro company are satisfied by a company if, in relation to a financial year, it

(a)qualifies for the small companies regime, and

(b)fulfils two or more of the following requirements:

(i)the amount of **turnover** of the company does not exceed €700,000[19];

(ii)the **balance sheet total**[20] of the company does not exceed €350,000;

(iii)the **average number of employees** does not exceed 10[21].

III.General

The following **types** of company can qualify for the SCR or the MCR if they meet the conditions for doing so:

- •Company limited by shares ('LTD');
- •Company limited by guarantee ('CLG');
- •Designated activity company ('DAC');
- •Unlimited company ('ULC').

Public limited companies (PLCs), public unlimited companies (PUCs) and public unlimited companies that have no share capital (PULCs) cannot qualify as small companies or micro companies.

3.The Preparation of Statutory Financial Statements Under the Small and Micro Companies Regimes

Sections 290 (entity financial statements) and 293 (group financial statements) set out the requirements for directors to prepare entity or group financial statements respectively for each financial year.

A holding company that qualifies for the SCR is exempt from the requirement to prepare group financial statements but it may choose to do so (section 293(1A)).

A holding company that qualifies for the MCR is also exempted by section 293(1A) from the requirement to prepare group financial statements. If it elects to do so then it cannot apply the MCR, as the MCR does not apply to a holding company that prepares group financial statements (section 280D(4)(c)). The holding company could, however, still apply the SCR.[22]

The form and content of **group** financial statements is not dealt with in this Technical Release and from here on all references are to the preparation of Companies Act entity financial statements only.

Preparation of Companies Act entity financial statements

General provisions in relation to the preparation of Companies Act entity financial statements are outlined in section 291.

Section 291(3) requires that small and micro Companies Act entity financial statements shall comply with:

•as to the accounting principles to be applied, the form and content of the balance sheet and profit and loss account and additional information to be provided by way of notes to the financial statements:

◦in the case of a company that qualifies for the SCR, the provisions of Schedule 3A or, if the company so elects, the provisions of Schedule 3; or

    ◦in the case of a small company that qualifies for the MCR, the provisions of Schedule 3B or, if the company so elects, the provisions of either Schedule 3A or Schedule 3;
- applicable accounting standards; and
- the other [relevant] provisions of CA 2014 (as amended).

Until the commencement of CA 2017, Schedule 3 (as originally enacted) contained accounting principles and rules on form and content of Companies Act entity financial statements for companies irrespective of size. CA 2017 introduced Schedule 3A into CA 2014 (as amended) for companies adopting the SCR and Schedule 3B for companies adopting the MCR. **CA 2017 also introduced into Part 6 of CA 2014 (as amended) some new disclosure requirements that are applicable to small and micro companies, and a number of disclosure exemptions for small and micro companies**[23].

Applicable accounting standards

As mentioned earlier, this Technical Release assumes that the preparer of financial statements of a small company adopting the SCR is applying Section 1A of FRS 102. Section 1A of FRS 102 sets out the information to be presented and disclosed in the financial statements of a small company24 that chooses to apply the SCR. **Unless excluded by virtue of Section 1A of FRS 102, all of the requirements of FRS 102 apply to a small company, including the recognition and measurement requirements (Section 1A.1 of FRS 102).**

Section 1A of FRS 102 exempts small companies from the requirements to prepare either a Statement of Cash Flows or a Statement of Changes in Equity.

As part of the Financial Reporting Council's Triennial Review 2017 Amendments (issued in December 2017), amendments were made to FRS 102 to incorporate the new SCR in the Republic of Ireland, including changes to Section 1A of FRS 102 and the inclusion of a new Appendix D to Section 1A. These changes include disclosure requirements for small companies adopting the SCR in the Republic of Ireland based on the requirements of CA 2014 (as amended), including Schedule 3A, and the relevant sections in Part 6.

Again, as mentioned earlier, this Technical Release assumes that the preparer of financial statements of a micro company[24] adopting the MCR is applying FRS 105. As part of the Triennial Review 2017 Amendments, amendments were also made to FRS 105 to incorporate the new MCR in the Republic of Ireland, including a new Appendix B to Section 6 of FRS 105. These changes include disclosure requirements for micro companies adopting the MCR in the Republic of Ireland based on the requirements of CA 2014 (as amended), including Schedule 3B, and the relevant sections in Part 6.

This Technical Release does not encompass the requirements of accounting standards and reference should be made to the relevant standards, including the appendices thereto as indicated above, in preparing the financial statements.

The March 2018 editions of all the FRC UK and Ireland accounting standards are available on the FRC website.

True and fair view

Under section 289 the directors of a company do not approve financial statements unless they are satisfied that they give a **true and fair view** of the assets, liabilities and financial position, as at the end of the financial year, and of the profit or loss for the financial year.

SCR:

While the SCR has a limited set of mandated disclosures, there remains an overarching requirement of CA 2014 (as amended) for directors of small companies to prepare financial statements that give a true and fair view and as such directors may need to consider providing disclosures in the financial statements additional to those specified by CA 2014 (as amended). **Section 1A of FRS 102 also states that disclosures additional to the Section 1A disclosures may be necessary in order to comply with the requirement for the financial statements to give a true and fair view (FRS 102, section 1A.6).**

Section 1A.17 of FRS 102 notes disclosure requirements in other parts of FRS 102 with which a small company is not specifically required to comply, but in doing so notes that because those disclosures are usually considered relevant to giving a true and fair view, a small company is encouraged to consider and provide any of those disclosures that are relevant to material transactions, other events or conditions of the small company in order to meet the requirement to give a true and fair view. In addition, Section 1A.20 of FRS 102 encourages small companies to make the disclosures set out in Appendix E to that Section.

Appendix E to Section 1A of FRS 102 has also been updated to reflect the Irish legal requirements. MCR:

This is in contrast to micro companies adopting the MCR where CA 2014 (as amended) states that it is presumed that 'compliance with Schedule 3B, applicable accounting standards[25], and the other [applicable] provisions of this Act', shall be sufficient to give a true and fair view (section 291(6A)).

Approval and signing of the statutory financial statements by board of directors

Section 324 of CA 2014 requires that the directors approve the financial statements and that the financial statements are signed by two directors (where there are two or more). In addition, section 324(4A) requires that where the statutory financial statements of a company are prepared in accordance with the SCR or the MCR, the balance sheet shall contain, in a prominent position above the directors signatures, a statement that the statutory financial statements concerned have been so prepared.

Where the company is availing of an audit exemption the balance sheet also contains the statement required by section 335.

4.Directors' reports

I.Small companies regime

Sections 325 to 332 contain the detail of the requirements regarding the information to be included in a directors' report. CA 2017 introduced some key changes for companies when preparing the directors' report in accordance with the SCR as outlined below. All other requirements regarding the content of the directors' report previously applying to small companies remain the same.

Prior to the introduction of the SCR, there were two primary exemptions available to small companies in preparing the directors' report, namely from providing:

(1)information regarding the use of financial instruments – this exemption has been retained under section 326(3A)); and

(2)information regarding key performance indicators in the business review – this exemption has been changed as discussed below.

Key changes for companies when preparing the directors' report in accordance with the SCR include an exemption from providing a business review and a new requirement to provide additional information in respect of acquisitions and disposals of own shares. Details of the changes are set out below.

Business review

Companies preparing the directors' report in accordance with the SCR are exempt from the requirement of section 325(1)(b), to provide a **business review** (in accordance with section 327) (section 325(1A)(a)). This exemption is further explained in section 327(1A) which provides that companies preparing the directors' report in accordance with the SCR are exempt from the requirements of section 327(1) to provide a fair review of the business and a description of the principal risks and uncertainties facing the company.

Notwithstanding that it is exempt from doing so, if the company decides to provide a business review in accordance with section 327(1), it is exempt from the requirement to provide **the analysis using non-financial key performance indicators** as otherwise required by section 327(3)(b) (section 327(3A)). Before the introduction of the SCR, while a small company was not exempt from providing a business review, it was exempt from providing information on both financial and non-financial key performance indicators.

Acquisition or disposal of own shares

CA 2017 amended section 328 of CA 2014 to extend the disclosures under this section to also require companies to give the reasons for any acquisitions of own shares made during the financial year and to state the proportion of called-up share capital held at the beginning and end of the financial year.

II.**Micro companies regime**

CA 2017 amended section 325 of CA 2014, by inserting a new subsection 325(1A)(b) which provides that a micro company can avail of an exemption from preparing **a directors' report**, provided that information in relation to the acquisition or disposal of own shares by the company (as required by the amended section 328 of CA 2014) is provided elsewhere as a note or as a footnote to the balance sheet.

If micro companies decide to prepare a directors' report, they are subject to the same requirements and can avail of the same exemptions as those for small companies above.

5.Form and Content of Statutory Financial Statements – Companies Adopting the Small Companies Regime

In relation to the accounting principles, form and content of financial statements, CA 2017 inserted a number of new Schedules into CA 2014 specifically for companies applying the SCR and MCR as follows:

- •Schedule 3A: SCR entity financial statements;
- •Schedule 4A: SCR group financial statements *(if exemption from preparing group financial statements is not availed of)*;
- •Schedule 3B: MCR entity financial statements.

This section of the Technical Release discusses the requirements of Schedule 3A for companies adopting the SCR[26]. As indicated in the introduction section, group financial statements, and therefore Schedule 4A, are outside the scope of this Technical Release. Schedule 3B for companies adopting the MCR is discussed in section 6 of this Technical Release.

As noted earlier, this Technical Release assumes that the preparer of the financial statements is applying Section 1A of FRS 102.

Formats

The **profit and loss account** and **balance sheet** should be presented in one of the two prescribed formats in Schedule 3A. **The number of available profit and loss account formats has reduced from four to two.** The required formats for financial statements and the rules regarding the use of the formats are included in Part II of Schedule 3A. Reference should also be made to:

- •The notes on the balance sheet and profit and loss account formats (included after each in Schedule 3A) in applying the formats.
- •The general rules (paragraphs 2 to 7) of Schedule 3A in preparing financial statements, e.g. rules regarding set off in paragraph 7; regarding combining amounts in paragraph 4; etc.

Format 1 of the two balance sheet and of the two profit and loss account formats in Schedule 3A are included in appendix 2 of this Technical Release for reference.

CA 2017 introduced into CA 2014 a provision that permits a company to adapt the formats in certain respects (for example, to prepare a statement of performance for the company instead of a profit and loss account), subject to specified conditions, including the requirement to provide information equivalent to the specified formats (paragraph 2(3) of Schedule 3A).

There are some changes to the line items in the balance sheet formats, including requiring:

- •**Investment properties** to be shown as a separate category of tangible fixed assets, either on the face of the balance sheet or in the notes;
- •**Prepayments** to be shown separately from accrued income, either on the face of the balance sheet or in the notes;
- •**Profit and loss for the year to be shown separately on the face of the balance sheet, unless the appropriation of profit reconciliation (as required by paragraph 48 of Schedule 3A) is shown at the foot of the profit and loss account or as a note to the financial statements.**

There are also some minor terminology changes, such as 'amounts owed to credit institutions' and replacing 'provisions' with 'value adjustments' (in relation to depreciation and impairments of assets, to distinguish them from provisions that are liabilities).

Small companies adopting the SCR are not required to provide a statement of cash flows or a statement of changes in equity. However, Section 1A of FRS 102 does encourage companies, where the relevant gains, losses and/or transactions (as appropriate) exist, to present a statement of total comprehensive income, and either a statement of changes in equity or a statement of income and retained earnings, in order to meet the requirement to give a true and fair view.

Notes to the financial statements

One of the main advantages for small companies adopting the SCR is the reduction in the number of notes that are required to be provided in the financial statements. The information required to be provided in the notes to the entity financial statements is driven by sections of the main body of CA 2014 (as amended) (primarily in Part 6) as well as the requirements in Schedule 3A.

As noted in the introduction section of this Technical Release, in addition to complying with the relevant provisions of CA 2014 (as amended) in preparing small company statutory financial statements directors are required to comply with 'applicable accounting standards' (assumed for the purposes of this Technical Release to be Section 1A of FRS 102).

As part of the Financial Reporting Council's Triennial Review 2017 Amendments (issued in December 2017), amendments were made to FRS 102 to incorporate the new SCR in the Republic of Ireland, including changes to Section 1A of FRS 102 and the inclusion of a new Appendix D to Section 1A. These changes include disclosure requirements for small companies adopting the SCR in the Republic of Ireland based on the requirements of CA 2014 (as amended), including Schedule 3A, and the relevant sections in Part 6. Reference should be made by small companies adopting the SCR to Section 1A of FRS 102, and in particular Appendix D thereto, in preparing Companies Act entity financial statements.

Preparers of financial statements will note that while there has been a general reduction in the number of notes that are required to be provided in the financial statements of a company adopting the SCR, a number of changes have also been made to the requirements that previously existed under CA 2014, including some new note disclosure requirements.

CA 2017 also introduced a requirement to CA 2014, in paragraph 43(2) of Schedule 3A, regarding the order in which notes are to be presented. This paragraph states that the notes shall be presented in the order in which, where relevant, the items to which they relate are presented in the balance sheet and in the profit and loss account.

Apart from the movements in fixed assets note, in respect of every item shown in the balance sheet, profit and loss account or notes to the financial statements, the corresponding amount for the immediately preceding financial year should be shown. Also, additional detail is required if the corresponding amount is not comparable and was adjusted (Schedule 3A, paragraph 5).

Preparers of financial statements adopting the SCR are reminded that disclosure requirements regarding directors' remuneration are still required, including the new disclosures in respect of payments to third parties for services of directors (sections 305, 305A and 306).

Again as mentioned previously, while the SCR has a limited set of mandated disclosures, there remains an overarching requirement on directors of small companies to prepare financial statements that give a true and fair view and as such directors may need to consider providing additional disclosures in the financial statements over and above those required by CA 2014 (as amended) and Section 1A of FRS 102 for companies applying the SCR. These are not considered in this Technical Release. Such additional disclosures will vary depending on the circumstances and transactions of the company and directors' judgement is required in this regard.

This Technical Release does not cover all of the changes that have arisen and therefore the amendments mentioned above are not an exhaustive list. It is important that companies consider in detail the relevant legal and accounting standard requirements in preparing their financial statements, in particular those in Section 1A of FRS 102 and Appendix D to Section 1A.

6.Form and Content of Statutory Financial Statements – Companies Adopting the Micro Companies Regime

In relation to the accounting principles, form and content of financial statements, CA 2017 inserted a number of new Schedules into CA 2014 specifically for companies applying the SCR and MCR as follows:

- Schedule 3A: SCR entity financial statements;
- Schedule 4A: SCR group financial statements *(if exemption from preparing group financial statements is not availed of)*;
- Schedule 3B: MCR entity financial statements.

This section of the Technical Release discusses the requirements of Schedule 3B for companies adopting the MCR[27].

As noted earlier, this Technical Release assumes that the preparer of the financial statements is applying FRS 105. FRS 105 provides that if a micro company chooses to prepare its financial statements in accordance with the micro companies regime it is required to apply FRS 105 (Paragraph (iv) of the Overview in FRS 105).

Formats

The **profit and loss account** should be presented in the format prescribed in Schedule 3B and the **balance sheet** should be presented in one of the two prescribed balance sheet formats in Schedule 3B. The number of available profit and loss account formats has been reduced from four to one. The required formats for financial statements and the rules regarding the use of the formats are included in Part II of Schedule 3B. Reference should also be made to:

- The note on the balance sheet formats (included after the formats in Schedule 3B) in applying the formats.
- The general rules (paragraphs 2 to 7) of Schedule 3B in preparing financial statements, e.g. rules regarding set off in paragraph 7 and regarding including subtotals in paragraph 4(3), etc.

The formats in Schedule 3B for companies applying the MCR differ significantly from those in Schedule 3A and are considerably simplified. This may be illustrated by reference to the profit and loss account format and Format 1 of the balance sheet formats in Schedule 3B which are included in appendix 2 of this Technical Release. However, the ability to amend the formats has been removed in Schedule 3B and the only change that can be made is to show items in greater detail than that required. A micro company can also include subtotals where that facilitates the assessment of the financial position or profit or loss of the company. However a micro company is not permitted to combine items and show the detail in the notes.

The MCR requires total creditors to be analysed between amounts that are due within one year and amounts that are due after more than one year. Unlike the SCR however, there is no requirement either on the face of the balance sheet or in the notes to analyse debtors or creditors individually by line item between amounts that are due within one year and amounts that are due after more than one year.

The terminology change from 'provisions' to 'value adjustments' in respect of depreciation or diminution in value of assets already mentioned in section 5 of this Technical Release also applies to the formats of a company adopting the MCR.

As mentioned in the Introduction, this Technical Release does not deal with the recognition and measurement requirements in the preparation of financial statements. Companies adopting the MCR in particular should be mindful of the differences in this regard under this regime and reference should be made to the relevant legal requirements in CA 2014 and the requirements of FRS 105. For example, companies adopting the MCR may only adopt the historical cost accounting rules. They are not permitted to apply the alternative accounting rules or the fair value accounting rules. It follows, for example, that if a company wanted to revalue assets such as property, or to capitalise development costs, it would not be able to do so under the MCR.

Notes to the financial statements

Companies adopting the MCR benefit from significantly reduced disclosure requirements compared to companies adopting the SCR. The information required to be provided in the notes to the entity financial statements is driven by sections of the main body of CA 2014 (as amended) (primarily in Part 6) as well as the requirements in Schedule 3B.

As noted in the introduction section of this Technical Release, in addition to complying with the relevant provisions of CA 2014 (as amended) in preparing micro company statutory financial statements directors are required to comply with 'applicable accounting standards' (i.e. FRS 105).

As part of the Financial Reporting Council's Triennial Review 2017 Amendments (issued in December 2017), amendments were made to FRS 105 to incorporate the new MCR in the Republic of Ireland, including a new Appendix B to Section 6 of FRS 105. These changes include disclosure requirements for micro companies adopting the MCR in the Republic of Ireland based on the requirements of CA 2014 (as amended), including Schedule 3B, and the relevant sections in Part 6. Reference should be made directly to FRS 105, and in particular Appendix B to Section 6 of the Standard, in preparing the financial statements.

As mentioned in section 3 of this Technical Release, CA 2014 (as amended) states that there is a presumption that for a micro company that adopts the micro companies regime, 'compliance with

Schedule 3B, applicable accounting standards[28], and the other [applicable] provisions of this Act' are sufficient to give a true and fair view (section 291(6A)).

CA 2017 introduced a requirement to CA 2014 in paragraph 31(2) of Schedule 3B regarding the order in which notes are to be presented. This paragraph states that the notes shall be presented in the order in which, where relevant, the items to which they relate are presented in the balance sheet and in the profit and loss account.

In respect of every item shown in the balance sheet, profit and loss account or notes to the financial statements, the corresponding amount for the immediately preceding financial year should be shown, along with additional detail if the corresponding amount is not comparable and was adjusted (Schedule 3B, paragraph 5).

This Technical Release does not cover all of the changes that have arisen and therefore the requirements mentioned above are not an exhaustive list. It is important that companies consider in detail the relevant legal and accounting standard requirements in preparing their financial statements.

7.Abridged Financial Statements

General

Section 352 provides an exemption for a company that qualifies for the SCR or the MCR from annexing its statutory financial statements to its annual return, and allows such a company to prepare abridged financial statements to annex to its annual return. The statutory financial statements must still be prepared and approved by the directors, with the abridged financial statements being drawn therefrom. The exemption is not, however, available where a company has elected to prepare statutory group financial statements.

Abridged financial statements are required to be approved by the board of directors and signed on the board's behalf by two directors if there are two or more directors. Where the company has a sole director, the abridged financial statements are approved and signed by that director.

The conditions that need to be met for a company to qualify for the SCR, and those that need to be met for a company to qualify for the MCR, are dealt with in section 2 of this Technical Release.

The following types of company can qualify for the small companies regime or the micro companies regime, if they meet the conditions for doing so, and if they do, they are entitled to annex abridged financial statements to an annual return, unless it is a holding company preparing group financial statements:

- Company limited by shares ('LTD');
- Company limited by guarantee ('CLG');
- Designated activity company ('DAC');
- A designated unlimited company which is required to annex financial statements to its annual return ('designated ULC').

Exemption

A company that is entitled to annex abridged financial statements to its annual return is exempt from filing:

a)The statutory financial statements of the company;
b)The directors' report (where one was presented); and
c)The statutory auditor's report on those financial statements (where audit exemption has not been availed of).

In place of the above, the company annexes the following information to its annual return:

a)Abridged financial statements – explained below; and
b)A special statutory auditor's report (where audit exemption has not been availed of).

Copies of the above must be accompanied by a certificate of a director and secretary of the company, stating that the copy is a true copy of the original (section 352(4)).

It is no longer a requirement when filing an annual return with abridged financial statements, to annex to the company's annual return, a separate statement with the information in relation to directors' interests in shares and debentures (section 352(3) of CA 2014, amended by section 51 of CA 2017).

There is no requirement for a small or micro company to file a directors' report even where, in the case of a micro company, it has opted to prepare one.

Abridged financial statements

A company's abridged financial statements are extracted from its statutory financial statements and comprise the balance sheet and <u>all</u> notes to the financial statements. This requirement includes notes that relate to profit and loss account items, despite the exemption from filing the profit and loss account (section 353). It also includes notes to the statutory financial statements required when information is aggregated on the face of the profit and loss account and therefore analysed in a note (as permitted under the SCR (Schedule 3A paragraph 4(4)), but not relevant under the MCR).

In addition, section 353 provides that where a company has opted in its statutory financial statements to include the appropriation of profit on the face of its profit and loss account (as permitted by Schedule 3A, paragraph 48 for small companies and Schedule 3B, paragraph 33 for micro companies), it must provide this information in a note to its abridged financial statements (section 353(3)(d)).

Prior to CA 2017, a small company was only required to extract certain notes to its financial statements for inclusion in its abridged financial statements.

Statements on the balance sheet

Section 355 sets out requirements for a statement to be included on the face of the balance sheet that forms part of a company's abridged financial statements regarding relying on the exemption in section 352 and to state that the abridged financial statements have been properly prepared in accordance with section 353. The signature or signatures of the signing director or signing directors should be inserted on that balance sheet immediately after this statement. The following is an example of how this statement might be worded:

> *'In preparing these abridged financial statements the directors [or director] have [has] relied on the exemption contained in section 352 of the Companies Act 2014 on the ground that the company qualifies for the small [micro] companies regime and is entitled to the benefit of that exemption. These abridged financial statements have been properly prepared in accordance with section 353 of the Companies Act 2014.'*

As mentioned in section 3 of this Technical Release:

- Where the statutory financial statements are prepared in accordance with the SCR or the MCR, the balance sheet should also contain, in a prominent position above the signature(s), a statement that the statutory financial statements have been so prepared in accordance with the SCR or the MCR as appropriate (section 324(4A)); and
- Where the company is availing of audit exemption the balance sheet also contains the statement required by section 335.

Appendix 1 Ineligible Entities

Ineligible entities are defined in section 275(1)[29] (the definition was introduced in section 12 of CA 2017). Ineligible entities means undertakings that -

(a)Have transferable securities admitted to trading on a regulated market of any Member State;
(b)Are credit institutions[30];
(c)Are insurance undertakings; or
(d)Are -
(i)Undertakings that-
(I)Fall within any of the provisions of Schedule 5 (see below); or
(II)Are otherwise designated, by or under any other enactment, to be entities referred to in point (1)(d) of Article 2 of the Accounting Directive[31];

or
(ii)Undertakings that are designated, by or under the law of any other Member State, to be entities referred to in point (1)(d) of Article 2 of the Accounting Directive[31] and 'ineligible company' shall be read accordingly.

Schedule 5 to CA 2014 (as amended) identifies the following list of companies[32]:

1)A company that is an authorised investment firm within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007).
2)A company that is an authorised market operator.

3)A company that is an associated undertaking or a related undertaking, of an authorised investment firm or an authorised market operator, within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007).
4)A company to which Chapter VII, VIII or IX of Part II of the Central Bank Act 1989 applies.
5)A company or undertaking engaged in the business of accepting deposits or other repayable funds from the public and granting credit for its own account[33].
6)A company that is an associated body of a building society within the meaning of the Building Societies Act 1989.
7)A company that is an associated enterprise of a credit institution within the meaning of the European Communities (Credit Institutions) (Consolidated Supervision) Regulations 2009 (S.I. No. 475 of 2009).
8)An investment company within the meaning of Part 24.
9)A company that is a management company, trustee or custodian within the meaning of Part 24 or of Part 2 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005.
10)A company that is an undertaking for collective investment in transferable securities within the meaning of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011).
11)A company that is a management company or trustee of an undertaking for collective investment in transferable securities within the meaning of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011).
12)A company that is a management company or trustee of a unit trust scheme within the meaning of the Unit Trusts Act 1990.
13)A company that is a general partner or custodian of an investment limited partnership within the meaning of the Investment Limited Partnerships Act 1994.
14)A company that has close links (within the meaning of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158 of 2014) with an authorised investment firm referred to in *paragraph 1* or a company referred to in *paragraph 5*.
15)Any other company the carrying on of business by which is required, by virtue of any enactment or instrument thereunder, to be authorised by the Central Bank.
16)A company that is the holder of an authorisation within the meaning of—
    a)Regulation 2 of the European Communities (Non-Life Insurance) Regulations 1976 (S.I. No. 115 of 1976);
    b)Regulation 2 of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994);
    c)Regulation 2 of the European Communities (Life Assurance) Regulations 1984 (S.I. No. 57 of 1984); or
    d)Regulation 2 of the European Communities (Life Assurance) Framework Regulations 1994 (S.I. No. 360 of 1994).
17)A company that is an insurance intermediary within the meaning of the Insurance Act 1989.
18)A company that is an excepted body within the meaning of the Trade Union Acts 1871 to 1990.

Appendix 2 Balance Sheet and Profit and Loss Account Formats from Schedule 3A and Schedule 3B

For ease of reference we include below Format 1 of the Balance Sheet and Profit and Loss account formats from Schedule 3A and Schedule 3B to CA 2014 (as amended). For other formats available for use, refer to the relevant Schedule to CA 2014 (as amended).

Schedule 3A: Small Companies Regime

Balance Sheet Format 1 from Schedule 3A

A.Fixed Assets
    I.Intangible assets
        1.Development costs
        2.Concessions, patents, licences, trade marks and similar rights and assets (1)
        3.Goodwill (2)
        4.Payments on account

II.Tangible assets

1.Investment property
2.Land and buildings
3.Plant and machinery
4.Fixtures, fittings, tools and equipment
5.Payments on account and assets in course of construction

III.Financial assets

1.Shares in group undertakings
2.Loans to group undertakings
3.Participating interests
4.Loans to undertakings with which the company is linked by virtue of participating interests
5.Other investments other than loans
6.Other loans

B.Current Assets

I.Stocks

1.Raw materials and consumables
2.Work in progress
3.Finished goods and goods for resale
4.Payments on account

II.Debtors (3)

1.Trade debtors
2.Amounts owed by group undertakings
3.Amounts owed by undertakings with which the company is linked by virtue of participating interests
4.Other debtors
5.Called-up share capital not paid
6.Prepayments
7.Accrued income

III.Investments

1.Shares in group undertakings
2.Other investments

IV.Cash at bank and in hand

C.Creditors: Amounts falling due within one year

1.Debenture loans (4)
2.Amounts owed to credit institutions
3.Called-up share capital presented as a liability (6)
4.Payments received on account (5)
5.Trade creditors
6.Bills of exchange payable
7.Amounts owed to group undertakings
8.Amounts owed to undertakings with which the company is linked by virtue of participating interests
9.Other creditors including tax and social insurance
10.Accruals
11.Deferred income

D.Net current assets (liabilities)

E.Total assets less current liabilities

F.Creditors: Amounts falling due after more than one year

1.Debenture loans (4)
2.Amounts owed to credit institutions
3.Called-up share capital presented as a liability (6)
4.Payments received on account (5)
5.Trade creditors
6.Bills of exchange payable
7.Amounts owed to group undertakings
8.Amounts owed to undertakings with which the company is linked by virtue of participating interests
9.Other creditors including tax and social insurance
10.Accruals
11.Deferred income

G.Provisions for liabilities

1.Retirement benefit and similar obligations
2.Taxation, including deferred taxation

3.Other provisions for liabilities

H.Capital and reserves

I.Called-up share capital presented as equity (6)

II.Share premium account

III.Revaluation reserve

IV.Other reserves

1.Other undenominated capital

2.Reserve for own shares held

3.Reserves provided for by the constitution

4.Other reserves including the fair value reserve (specified as necessary)

V.Profit or loss brought forward (8)

VI.Profit or loss for the financial year (8)

Notes on the Balance Sheet format 1 in Schedule 3A

(1)Concessions, patents, licences, trade marks and similar rights and assets

(Format 1, item A. I. 2)

Amounts in respect of assets shall only be included in a company's balance sheet under this item if either

—

(a)the assets were acquired for valuable consideration and are not required to be shown under goodwill, or

(b)the assets in question were created by the company itself.

(2)Goodwill

(Format 1, item A. I. 3)

Amounts representing goodwill shall only be included to the extent that the goodwill was acquired for valuable consideration.

(3)Debtors

(Format 1, items B. II. 1 to 7)

The amount falling due after more than one year shall be shown separately for each item included under debtors.

(4)Debenture loans

(Format 1, item C. 1 and F. 1)

The amount of any convertible loans shall be shown separately.

(5)Payments received on account

(Format 1, items C. 4 and F. 4)

Payments received on account of orders shall be shown for each of these items in so far as they are not shown as deductions from stocks.

(6)Called-up share capital

(Format 1, item C. 3, F. 3 and H. I)

In accordance with the accounting principle in paragraph 17, called-up share capital shall be analysed between shares that are presented as liabilities and share capital.

(8)Profit and loss account

(Format 1, items H.V and VI)

These items may be combined where the appropriation of profit required by paragraph 48 is given at the foot of the profit and loss account or in a note to the financial statements.

Profit and Loss account Format 1 from Schedule 3A

Format 1 (13)

1.Turnover

2.Cost of sales (9)

3.Gross profit or loss

4.Distribution costs (9)

5.Administrative expenses (9)

6.Other operating income

7.Income from shares in group undertakings

8.Income from participating interests
9.Income from other financial assets (10)
10.Other interest receivable and similar income (10)
11.Value adjustments in respect of financial assets and investments held as current assets
12.Interest payable and similar expenses (11)
13.Tax on profit or loss
14.Profit or loss after taxation
15.Other taxes not shown under the above items
16.Profit or loss for the financial year (12)

Notes on the Profit and Loss account Format 1 in Schedule 3A

(9)Cost of sales: Distribution costs: Administrative expenses

(Format 1, items 2, 4 and 5)

These items shall be stated after taking into account any necessary value adjustments for depreciation or diminution in value of assets.

(10)Income from other financial assets: other interest receivable and similar income

(Format 1, items 9 and 10)

Income and interest derived from group undertakings shall be shown separately from income and interest derived from other sources.

(11)Interest payable and similar expenses

(Format 1, item 12)

The amount payable to group undertakings shall be shown separately.

(12)Profit or loss for the financial year

(Format 1, item 16)

The appropriation of profit required by paragraph 48 may be given at the foot of the profit and loss account or in a note to the financial statements.

(13)Format 1

The amounts of any value adjustments for depreciation and diminution in value of tangible and intangible fixed assets falling to be shown under item 7(a) in Format 2 shall be shown separately in any case where the profit and loss account is prepared by reference to Format 1.

Schedule 3B: Micro companies regime

Balance Sheet Format 1 from Schedule 3B

A.Called up share capital not paid
B.Fixed assets
C.Current assets
D.Prepayments and accrued income
E.Creditors: amounts falling due within one year
F.Net current assets (liabilities)
G.Total assets less current liabilities
H.Creditors: amounts falling due after more than one year
I.Provisions for liabilities
J.Accruals and deferred income
K.Capital and reserves

Profit and Loss account Format from Schedule 3B

1.Turnover
2.Other income
3.Cost of raw materials and consumables
4.Staff costs
5.Value adjustments and other amounts written off assets
6.Other expenses
7.Tax
8.Profit or loss

1 *Apart from the amendments to section 1300 of CA 2014 relating to the definitions of 'EEA company' and 'Non-EEA company' for the purposes of Part 21 of CA 2014 'External Companies', which in accordance with SI No 34 of 2018 came into operation on 9 June 2018.*

2 Below is a list of section references included in this Technical Release which are not 'specified provisions' in section 277A of CA 2014:

- *The amendments made by CA 2017 to sections 305(6) and 306;*
- *The insertion of sections 305A, 1116A, 1267A and 1400A into CA 2014.*

3 The form and content of Companies Act group financial statements is not dealt with in this Technical Release. Small companies may prepare IFRS entity and group financial statements, but these are also outside the scope of this Technical Release.

4 This Technical Release does not consider other provisions of CA 2014 (as amended) that apply to small or micro companies, for example, the requirement to keep adequate accounting records.

5 The provisions of the Companies (Statutory Audits) Act 2018, enacted on 25 July 2018, do not impact on the preparation of financial statements under the SCR or the MCR.

6 For information, on 21 March 2018 the Minister for Business, Enterprise and Innovation signed the 'Companies Act 2014 (Accounting Standards) (Prescribed Body) Regulations 2018' which designate the Financial Reporting Council ('FRC') as 'a body that issues statements of accounting standards' in Ireland (for the purposes of the definition of 'accounting standards' in section 275(1) of the Companies Act 2014). The Regulations came into operation on 28 March 2018.

7 Paragraph (iv) of the Overview in FRS 105 says: 'The application of the micro-entities regime is optional; however, a micro- entity that chooses to prepare its financial statements in accordance with the micro-entities regime is required to apply FRS 105...'.

8 An ineligible company/entity is described in appendix 1 of this Technical Release.

9 Proportionately adjust the turnover figure where the financial year is less than or greater than 12 months.

10 'balance sheet total', in relation to a company, means the aggregate of the amounts shown as assets in the company's balance sheet (section 275(1)), i.e. the total of fixed assets and current assets.

11 The average number of employees of a company shall be determined by applying the methods specified in section 317 for determining the number of employees required by subsection (1)(a) of that section to be stated in a note to the financial statements of a company.

12 An ineligible company/entity is described in appendix 1 of this Technical Release.

13 'first financial year of a holding company' referred to in section 280B means the first financial year at the end of which the company qualifies as a holding company by virtue of having one or more subsidiaries. (section 280B(10)).

14 Proportionately adjust the turnover figure where the financial year is less than or greater than 12 months.

15 'balance sheet total' (section 275(1)), i.e. the total of fixed assets and current assets), in relation to a group, means the aggregate of the amounts shown as assets in the balance sheet of each member of the group, aggregated to give a total for the group (section 280B(7)).

16 While section 280B (11)(i) refers to Schedule 4, Schedule 4A is the relevant schedule for group financial statements for companies adopting the small companies regime.

17 'investment undertakings' means:

> (*a*)*undertakings the sole object of which is to invest their funds in various securities, real property and other assets, with the sole aim of spreading investment risks and giving their shareholders the benefit of the results of the management of their assets,*
> (*b*)*undertakings associated with investment undertakings with fixed capital, if the sole object of those associated undertakings is to acquire fully paid shares issued by those investment undertakings without prejudice to point (h) of Article 22(1) of Directive 2012/30/EU.*

(Source: Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 ('EU Accounting Directive')

18 'financial holding undertakings' means undertakings the sole object of which is to acquire holdings in other undertakings and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings, without prejudice to their rights as shareholders.

(Source: EU Accounting Directive)

19 *Proportionately adjust the turnover figure where the financial year is less than or greater than 12 months.*

20 *'balance sheet total', in relation to a company, means the aggregate of the amounts shown as assets in the company's balance sheet (section 275(1)), i.e. the total of fixed assets and current assets.*

21 *The average number of employees of a company shall be determined by applying the methods specified in section 317 for determining the number of employees required by subsection (1)(a) of that section to be stated in a note to the financial statements of a company.*

22 *Please also note that, as mentioned in section 2 of this Technical Release, a subsidiary cannot avail of the MCR if included in the consolidated financial statements of a higher holding undertaking.*

23 *For information, CA 2017 also amended certain requirements of Part 6 and Schedule 3 for companies not adopting the SCR or MCR.*

24 *FRS 102 Section 1A refers to requirements for 'small entities'. For the purposes of this Technical Release, we refer to 'small companies' when noting the requirements of Section 1A. A similar approach is taken when referring to the requirements of FRS 105.*

25 *i.e. FRS 105 'The Financial Reporting Standard applicable to the Micro-entities regime'.*

26 *Paragraph 18 of Schedule 3A notes that the provisions of that Schedule need not be complied with where the amounts involved are not material for the purpose of giving a true and fair view.*

27 *Paragraph 18 of Schedule 3B notes that the provisions of that Schedule need not be complied with where the amounts involved are not material for the purpose of giving a true and fair view.*

28 *i.e. FRS 105 'The Financial Reporting Standard applicable to the Micro-entities regime'.*

29 *There are slightly different definitions of ineligible entities in relation to PLCs, PUCs and PULCs, and Investment Companies. See revised sections 1116A, 1267A and 1400A respectively to CA 2014 (as amended) which state how the definition of 'ineligible entities' in section 275(1) shall apply to PLCs, PUCs and PULCs, and Investment Companies respectively.*

30 *CA 2017 amended the definition of a 'credit institution' so that a credit institution means an undertaking the business of which is to take deposits or other repayable funds* ***from the public and*** *to grant credit for its own account. CA 2014 did not explicitly restrict the definition of a credit institution to taking deposits 'from the public'.*

31 *Point 1(d) of Article 2 of the Accounting Directive permits Member States to designate further entities as public interest entities. To date, Ireland has not availed of this option.*

32 *Most of the companies in Schedule 5 are companies regulated by the Central Bank of Ireland.*

33 *As amended by the Companies (Statutory Audits) Act 2018.*