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Is size all that matters?

In this article Maureen Kelly explores the new small entity reporting options and what you should consider when deciding which to adopt

Recent articles in this journal have examined new reporting options in advance of them becoming available to users of Irish GAAP pending the enactment of the Companies (Accounting) Act 2017. As detailed in the News sections of this edition the Act has commenced and *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime* and *Section 1A Small Entities FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* are now available for use in the Republic of Ireland. The titles of these new reporting standards may have lead members to think purely in terms of size for which of the standards they should use. But is there more to it than size?

Micro and Small Options

In Robert Kirk's excellent article in our December 2016 edition of this journal he explored the options and requirements of FRS 105 and the differences between it and FRS 102 and although written before the enactment of the legislation all of that information is still valid.

In the June 2017 edition of this journal we informed members of the new reporting option soon to be available (also pending the enactment of the 2017 Act) to Small Entities on the measurement of Director's loans.

So now might be the time to bring all of that information together and consider the advantages and pitfalls of each choice.

Points to consider

If you have established that a company is eligible to apply one or both of these standards what else should you consider before making the choice? Any company can always choose a higher level standard than the one that they are eligible for.

Workload

If considering the choice purely from the position of workload for the accountant in the short term you might consider Section 1A. After all it will not cause much disruption on transition as the recognition and measurement requirements of FRS 102 still apply. Essentially the difference between full FRS 102 and Small Entities Section 1A is reduced disclosure and the option for a specific type of directors' loan not to be measured using the effective interest rate. This type is a loan from a director who is a natural person and a shareholder in the small entity or a close member of the family of that person. Unless further amendments are made to FRS 102, all other directors' loans and intercompany loans under FRS 102 still require the calculation of the effective interest rate unless they are repayable on demand.

Reduction in the volume of reporting

But if an overall reduction in the volume of reporting going forward is more important then FRS 105 should be considered. In the short term there will be an increase in workload as FRS105 is a different standard and therefore there is a transition process which must be gone through in much the same way as we transitioned from old Irish GAAP to FRS102. Once again we must:

- Recognise assets and/or liabilities previously not recognised
- Not recognise items as assets or liabilities if FRS 105 does not permit their recognition
- Restate certain assets and liabilities at a different value – eg revaluations must be reversed
- Reclassify items

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Also comparative information presented in accordance with FRS 105 in respect of the preceding period for all amounts presented in the financial statements will be required. The details of the requirements and options on transition are provided in Section 28 of FRS 105.

Who are the users and what are their needs?

One of the most important considerations when choosing which standard to use is who the users of the financial statements are and what are their needs. If the company is a small one with no external funders their main concern may be to fulfil their CRO filing requirements without disclosing too much information to competitors. In this case FRS 105 may be their best choice with the most attractive aspect of it being that it is the only Irish GAAP reporting standard that does not require disclosure of directors' remuneration. Small companies, even in their abridged accounts, require disclosure of directors' remuneration.

If the company is dependent on external finance and credit they may find that the information provided by FRS 105 accounts is insufficient for those finance providers. As outlined in Robert Kirks' article if a micro-entity chooses to disclose information in addition to the minimum legal disclosure notes it must, in respect of that item, follow the full disclosure requirements of FRS 102. Whilst it has been suggested that the voluntary provision of this information in addition to the statutory accounts prepared under FRS 105 may be sufficient this may not provide the assurance that many fund providers require.

The company may also need to consider whether the restrictions on capitalisation of development and borrowing costs, revaluation of property and deferred tax are something which meets the reporting needs of their organisation or restricts their activities.

Conclusion

In conclusion is size all that matters? No. Each entity should reflect on the full scope of the reporting standard that they are considering adopting and based on their own requirements select the one that suits them.