

## FRS 101 and FRS 102 webinar

### Questions and answers

**Q How about deferred tax on losses? How does this need to be backed up?**

A FRS 102 takes the 'glass half empty' approach and paragraph 29.7 says that the very existence of unrelieved tax losses is strong evidence that there may not be other future taxable profits against which the losses will be relieved. Therefore the accountant needs to obtain corroboratory evidence that there will be sufficient profits generated in subsequent accounting periods to utilise the deferred tax asset. Such evidence could be:

- Management accounts prepared after the year-end date showing a return to profit.
- Directors' representations confirming how the company will return to profit (although such representations would need to be backed up with other forms of evidence).
- Reviews of any contracts that have been awarded to the company in the subsequent accounting period.
- Cash flow forecasts prepared after the year-end date confirming positive cash inflows.

The above list is by no means exhaustive and care must be taken when recognising deferred tax assets to ensure that not only will the company generate profit after the year-end, but that the profit is 'sufficient' so as to utilise the deferred tax asset.

**Q Valuations can be expensive for small businesses. In FRSE the Officer can make best judgement. Is this still available?**

A Section 16 *Investment Property* is not specific on the use of a professional valuation. However, the disclosure requirements in Section 16 do state that disclosure should be made as to the extent to which fair value is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. Where no such valuation has been made, that fact is to be disclosed.

Under the new small companies' regime, the disclosure requirements are limited but this does not preclude the directors of a small company from ensuring that the financial statements give a true and fair view and wherever possible, it is always advisable to obtain an independent valuation from a professionally-qualified valuer to ensure that the carrying value of the investment property at each reporting date is accurate.

In addition, for owned fixed assets that are subject to revaluation (for example a property that is not an investment property), paragraph 1A.14(i)(ii) of the proposed FRS 102 for small entities says that for fixed assets that have been revalued during the reporting period, the names of the persons who valued them or particulars of their qualifications and the bases of valuation should be disclosed.

**Q With regard to accrued holiday pay – can you say that a figure is not material enough to provide for or do you have to provide whatever the amount?**

A Accounting standards only deal with material issues, therefore if a transaction is immaterial then it does not have to be accounted for under FRS 102. However, whilst an item may be immaterial in isolation, it may become material when combined with other unaccounted transactions. In any case it is advisable to obtain the accrued holiday pay and then make a judgement call as to whether it is immaterial to be accounted for having regard to the other immaterial in isolation transactions. However, if the figure has been calculated it would seem sensible to account for it in any instance as the effort is in the calculation of the figure rather than the accounting for it.

**Q Regarding micro-entities can you give us the turnover and balance sheet amounts that this covers again please – or will it be on the notes?**

A An entity will qualify to use the micro-entities regime if it satisfies at least two of the following three criteria:

Turnover	£632,000
Balance sheet total (fixed assets plus current assets)	£316,000
Number of employees	10

A point worthy of note is that the micro-entities regime is extremely restrictive in terms of its eligibility criteria. While the legislation (and proposed FRS 105) use the term 'micro-entities', only companies can qualify to use the regime, hence an LLP cannot use the standard, nor can charities (among other types of entities that cannot use the standard). Care should therefore be taken when considering the eligibility criteria to ensure that your client/organisation qualifies to use the framework.

In addition (as noted in the criteria above), balance sheet total is fixed plus current assets – do not fall into the trap of confusing this with net assets (which is after liabilities have been deducted).

**Q What happens if the company's previously declared dividends become 'illegal' because of the restating of the balances? Will the company be liable for this even though when they were declared it was OK?**

A This is really a question for the lawyers but to the extent that a dividend becomes illegal then the shareholders can be called upon to repay the illegal portion of the dividend in the event of a liquidation/winding up. Where dividends may have become illegal due to the transitional adjustments, it might be advisable to seek legal advice. In addition, where it is likely that dividends will become illegal following the transition, clients/directors should be informed as soon as possible that this is likely to occur (particularly in 'lifestyle' companies where reserves may be withdrawn in their entirety in the form of a dividend).

Dividends are an issue which I am advising accountants to take particular care on because under the new regime more transactions have to be recognised under FRS 102 (e.g. derivative financial instruments, holiday pay accruals and more deferred tax balances) all of which will have an impact on distributable profits.

**Q Please can you explain how the previously declared dividends should be dealt with under FRS 102 or which section covers this area?**

A Dividends are an appropriation of post-tax profit and there are not any differences between how dividends will be accounted for under FRS 102 compared to how they were accounted for under the old regime. Distribution to owners are dealt with in Section 22 *Liabilities and Equity*. Issues may arise where previously declared dividends might have become illegal following the transition but this issue has been looked at in the previous question.

**Q Are there any good checklists to work with?**

A Many training providers sell disclosure checklists and the ones commonly recommended by accountants are Surebeck and Mercia.

**Q Accruals – is VAT included?**

A Yes VAT will be included because otherwise your creditor will be understated. Think of the value of trade creditors in the balance sheet at the year-end, these will also include VAT and hence it follows that so should accruals. Therefore, if we consider the accountancy fee accrual and we are charging the client £1,000 plus VAT, the entries will be:

Debit accountancy fees (profit and loss)	£1,000
Debit VAT control (input VAT)	£200
Credit accruals	£1,200

**Q I downloaded a document from AAT re FRS 102 and it was 65 pages long. Does this cover everything that will change?**

A Unfortunately not. The document you downloaded was a collation of all the technical articles written by me during the year to 31 December 2014. The articles cover the technical content of FRS 102 on various sections of the standard and also the differences between current UK accounting standards and FRS 102 (which is always a good place to start). While the document covers a lot of FRS 102, it does not deal with every single aspect of the new regime. I produce a monthly article for the AAT which is published in the CPD Interactive zone and these cover further technical issues regarding FRS 102 as well as the changes on the way for small and micro-entities.

**Q What will happen to the sole traders etc.? Will they stay with the FRSSE?**

A The FRSSE is being withdrawn for accounting periods commencing on or after 1 January 2016 (hence the FRSSE (effective January 2015) will only have a one year lifespan). For sole traders and partnerships who prepare accounts for tax purposes, HM Revenue and Customs will still require accounts prepared to UK GAAP and hence they will follow the principles contained in FRS 102/FRS 105 and prepare accounts on the accruals basis of accounting.

**Q Can you please let me have the threshold for micro-entities?**

A This has been outlined in the question above.