AAT Webinar – Questions Answered

Q Ian Cunningham: How do you ‘apply early’ to join the new rules?

A The phrase ‘apply the rules early’ means that the rules in new UK GAAP are applied earlier than the mandatory ‘effective from’ date. For example, all small companies must apply FRS 102 with reduced disclosures for accounting periods commencing on or after 1 January 2016 (so for a calendar year that would mean a year-end of 31 December 2016 uses new UK GAAP for the first time and this new regime is then applied to the date of transition to FRS 102). A company could, if they wished, apply the rules earlier than the mandatory effective from date and they just early-adopt the standard by choice – they do not have to apply anywhere to do it. Companies that would have been classed as medium-sized under the previous version of the Companies Act 2006, but now might qualify as small under the revised Companies Act 2006 (due to the increased thresholds) are the ones who may benefit from early-adoption. However, where early adoption is taken up, it must be borne in mind that the entity must apply the new suite of standards; in other words it cannot apply the FRSSE (effective January 2015).

Q Karen Taylor: If you do micro entities accounts, how easy to move when they grow?

A If you adopt FRS 105 and the entity then grows to the point that FRS 105 is no longer appropriate, the next standard up is FRS 102 with reduced disclosure. You would have to apply FRS 102 with reduced disclosure to the date of transition to comply with Section 35 requirements, so if the entity has grown rapidly it might mean doing two transitions relatively close together. This is an issue which should be carefully considered when undertaking an impact assessment because if it is likely that the entity will grow at a fast pace, or FRS 105 may only be used for a relatively short period of time, then it might be beneficial to bypass FRS 105 and just go straight onto FRS 102 with reduced disclosures (FRS 105 is optional).

Keep in mind also that there are more accounting policy options and additional disclosures required under FRS 102 with reduced disclosures.

Q Hermione Stansfield 2: Can I just check do historical revaluations have to be moved from the balance sheet to the P&L when this comes into effect?

A I suspect this is in relation to investment property. Yes, on transition you would move the revaluation surplus into the profit and loss account reserves. In the comparative year they would be taken to profit or loss. Keep in mind they are not distributable as a dividend and this treatment only applies to investment property; it does not apply to owned property carried at revaluation under Section 17 *Property, Plant and Equipment* under FRS 102 with reduced disclosure. Also, don’t forget the deferred tax issues if reporting under FRS 102!

Q Lindsay O’Connell: How do you calculate the average number of employees?

A The average number of employees calculation is outlined in the Companies Act 2006 and this figure is determined as follows:

- find for each month in the financial year the number of persons employed under contracts of service by the company in that month (whether throughout the month or not);
- add together the monthly totals; and

- divide by the number of months in the financial year.

Q Yvette Ruddock: Does the director of a 'one-man band' count as an employee for disclosure purposes?

A This is quite a grey area! However, it is generally accepted that directors who have a contract of service (i.e. an employment contract with the company) are regarded as an employee and hence it would be appropriate to make the required disclosures.

Q Hermione Stansfield 2: So when using SAGE we are going to have to journal these historical entries out to the P&L so the balance sheet is correct on the accounting package used to generate the information?

A Yes that would be needed in order that any internal management reports prepared show a reasonably accurate position. For example, if you have an investment property on the balance sheet carried at fair value, it would not be correct to put any revaluation fluctuations through a revaluation reserve account in equity because this treatment does not comply with FRS 102 so on transition to FRS 102/FRS 105 it is always a good idea to agree the opening position and use the correct opening balances which could be supplied by your accountant or auditor.