

Small entities (Lecture A861 – 11.21 minutes)

Many small entities choose to apply the presentation and disclosure requirements of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, Section 1A *Small Entities*. Section 1A provides a reduced level of disclosure which complies with the requirements of company law.

There are two specific Appendices which are relevant to the small company disclosure requirements in FRS 102 (January 2022), Section 1A:

- Appendix C: Disclosure requirements for small entities in the UK
- Appendix D: Disclosure requirements for small entities in the Republic of Ireland

There is then Appendix E *Additional disclosures encouraged for small entities*.

Encouraged disclosures

Company law requires the financial statements of a small entity to give a true and fair view. The mere application of appendices C and D may not achieve that, and it will require the professional judgement on the part of the directors (often in conjunction with their professional accountant) to determine which, if any, additional disclosures should be made in the small entity's financial statements to achieve a true and fair view. Remember, under FRS 102 (January 2022), potentially anything outside Section 1A (i.e. full FRS 102) is disclosable if making such a disclosure enables a true and fair view to be presented.

The FRC included Appendix E to encourage small entities to provide the following disclosures in the financial statements to enable a true and fair view to be achieved. The encouraged disclosures are as follows:

(a) a statement of compliance with this FRS as set out in paragraph 3.3, adapted to refer to Section 1A;

(b) a statement that is a **public benefit entity** as set out in paragraph PBE3.3A;

(c) the disclosures relating to **material** uncertainties related to events or conditions that cast significant doubt upon the small entity's ability to continue as a **going concern** as set out in paragraph 3.9;

(d) dividends declared and paid or payable during the period (for example, as set out in paragraph 6.5(b)); and

(e) on first-time adoption of this FRS an explanation of how the transition has affected its **financial position** and financial performance as set out in paragraph 35.13.

FRS 102
(January 2022),
para 1AE.1 (a)
to (e)

Changes to the disclosure requirements for small entities in the UK

Following the UK's departure from the EU, the FRC is now able to require more disclosure for small companies in the UK. Prior to Brexit, the FRC had stated that it was constrained by the requirements of the EU Accounting Directive, but this is no longer the case.

The FRC has made amendments to FRS 102, Section 1A, Appendix C by requiring more disclosures to be made for small entities.

The FRC are of the view that this will be helpful to small entities as there will not be as much reliance needed on professional judgement to enable a true and fair view to be presented in the financial statements; although there will be some element of this required and additional disclosures may still be required to achieve a true and fair view.

The amendments to FRS 102, Section 1A, Appendix C are as follows:

General

FRS 102, para 1AC.1 has been amended to clarify that a small entity need not provide a specific disclosure set out in Appendix C if the information resulting from that disclosure is not material. The exception to this rule would be where the disclosure is required by company law.

This additional clarification has been included because the revised Appendix C mandates disclosure information that may not necessarily be required by law. If that disclosure information *is* required by law, it must be made regardless of materiality.

Statement of compliance

A small entity must make an explicit and unreserved statement of compliance with FRS 102 (adapted to refer to Section 1A) in the notes to the financial statements.

Keep in mind that a small entity will **not** be able to make such an explicit and unreserved statement of compliance unless the financial statements comply with **all** the requirements of FRS 102 (including Section 1A).

Public benefit entities that apply the 'PBE' prefixed paragraphs must also make an explicit and unreserved statement of compliance that it is a public benefit entity.

Going concern

A new paragraph 1AC.2C is included which requires a small entity to provide the disclosures set out in paragraphs 3.8A and 3.9.

For clarity, paragraphs 3.8A and 3.9 are reproduced as follows:

When an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that management has considered information about the future as set out in paragraph 3.8. It shall also disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern.

Amendments to FRS 102 and other FRSs (March 2024), para 3.8A

*When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.*

Amendments to FRS 102 and other FRSs (March 2024), para 3.9

To a certain extent, this will help to 'mop up' a problem that became particularly prevalent during the Covid-19 pandemic where some small entities did not include disclosures about material uncertainties relating to going concern. This was often on the grounds that there was no legal requirement to do so.

While this is true, the fact that they are **material** uncertainties means that a small entity should include such disclosures in the financial statements to achieve a true and fair view (remember, there is a legal requirement to ensure the financial statements for a small entity present a true and fair view).

ACCA and ICAEW issued guidance to member firms in this respect stating that while the accounts were legally 'correct', the fact that they may omit a material disclosure means that they are materially misleading hence do not present a true and fair view.

The professional bodies also reminded member firms that they are not allowed to have their names associated with accounts that are misleading so any reluctance by the small company's directors to include disclosures about material uncertainties relating to going concern would mean the firm may have to resign from the client.

Making material uncertainties relating to going concern mandatory for small entities will reduce this happening.

Current and deferred tax

Small entities are required to provide the disclosures relating to deferred tax set out in paragraph 29.27(e). For clarity, this paragraph is reproduced as follows:

The amount of deferred tax liabilities and deferred tax assets at the end of the reporting period for each type of timing difference and the amount of unused tax losses and tax credits.

FRS 102, para 29.27(e)

In addition, FRS 102, para 1AC.32C requires a small entity to provide information relating to **current tax** and **deferred tax** as set out in paras 29.26 and 29.27(b).

Paragraphs 29.26 and 29.27(b) are reproduced as follows:

An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

*FRS 102, para
29.26*

- (a) current tax expense (income);*
- (b) any adjustments recognised in the period for current tax of prior periods;*
- (c) the amount of deferred tax expense (income) relating to origination and reversal of timing differences;*
- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;*
- (e) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders; and*
- (f) the amount of tax expense (income) relating to changes in **accounting policies** and material **errors** (see Section 10 Accounting Policies, Estimates and Errors).*

A reconciliation between:

*FRS 102, para
29.27(b)*

- (i) the tax expense (income) included in profit or loss; and*
- (ii) the profit or loss on ordinary activities before tax multiplied by the applicable tax rate.*

Leasing

Given the significant changes to lease accounting in FRS 102, it was unsurprising that the FRC include additional disclosure requirements for small entities in the UK concerning a small entity's leasing arrangements as follows:

- (a) Where the small entity is a lessee, a general description of its significant leasing arrangements must be made. There is a similar disclosure requirement in FRS 102, para 20.76.
- (b) Where necessary to enable users to understand the small entity's significant leasing arrangement, a lessee must provide additional qualitative and quantitative information. There is a similar disclosure requirement in FRS 102, para 20.77, which requires the following minimum information:
 - (i) information concerning future cash flows to which the lessee is potentially exposed that are not reflected in the measurement of the lease liability;
 - (ii) information concerning restrictions or covenants imposed by leases;
 - (iii) the type of discount rate used in the calculation of lease liabilities; and

- (iv) specific information concerning sale and leaseback transactions.
- (c) A small entity must provide the disclosures concerning short-term leases, leases of low-value assets and variable lease payments as set out in paragraphs 20.80(b) to 20.80(d).

For clarity paragraphs 20.80(b) to 20.80(d) are reproduced as follows:

The expense relating to short-term leases accounted for applying paragraph 20.6. This expense need not include the expense relating to leases with a lease term of one month or less.

The expense relating to leases of low-value assets accounted for applying paragraph 20.6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 20.80(b).

The expense relating to variable lease payments not included in the measurement of lease liabilities.

Amendments to FRS 102 and other FRSS (March 2024), para 20.80(b)
Amendments to FRS 102 and other FRSS (March 2024), para 20.80(c)
Amendments to FRS 102 and other FRSS (March 2024), para 20.80(d)

Provisions and contingencies

A small entity is required to provide the disclosures concerning provisions and contingencies as set out in paragraphs 21.14 to 21.17A. For clarity, these paragraphs are reproduced below:

Disclosures about provisions

For each class of provision, an entity shall disclose the following:

- (a) *a reconciliation showing:*
 - (i) *the carrying amount at the beginning and end of the period;*
 - (ii) *additions during the period, including adjustments that result from changes in measuring the discounted amount;*
 - (iii) *amounts charged against the provision during the period; and*
 - (iv) *unused amounts reversed during the period.*
- (b) *a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;*
- (c) *an indication of the uncertainties about the amount or timing of those outflows; and*
- (d) *the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.*

FRS 102, para 21.14

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

*FRS 102, para
21.15*

- (a) an estimate of its financial effect, measured in accordance with paragraphs 21.7 to 21.11;*
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and*
- (c) the possibility of any reimbursement.*

*If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.*

Disclosures about contingent assets

If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7 to 21.11. If it is impracticable to make this disclosure, that fact shall be stated.

*FRS 102, para
21.16*

Prejudicial disclosures

In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14 to 21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose all of the information required by those paragraphs insofar as it relates to the dispute, but shall disclose at least the following:

*FRS 102, para
21.17*

In relation to provisions, the following information shall be given:

- (a) a table showing the reconciliation required by paragraph 21.14(a) in aggregate, including the source and application of any amounts transferred to or from provisions during the reporting period;*
- (b) particulars of each provision in any case where the amount of the provision is material; and*
- (c) the fact that, and reason why, the information required by paragraph 21.14 has not been disclosed.*

In relation to contingent liabilities, the following information shall be given:

- (a) particulars and the total amount of any contingent liabilities (excluding those which arise out of insurance contracts) that are not included in the statement of financial position;*

(b) *the total amount of contingent liabilities which are undertaken on behalf of or for the benefit of:*

- (i) *any **parent** or fellow **subsidiary** of the entity;*
 - (ii) *any subsidiary of the entity; or*
 - (iii) *any entity in which the reporting entity has a participating interest,*
- shall each be stated separately; and*

(c) *the fact that, and reason why, the information required by paragraph 21.15 has not been disclosed.*

In relation to contingent assets, the entity shall disclose the general nature of the dispute, together with the fact that, and reason why, the information required by paragraph 21.16 has not been disclosed.

Disclosure about financial guarantee contracts

An entity shall disclose the nature and business purpose of the financial guarantee contracts it has issued. If applicable, an entity shall also provide the disclosures required by paragraphs 21.14 and 21.15.

FRS 102, para 21.17A

Share-based payment transactions

The small entity must make disclosures in connection with any share-based payment arrangements it undertakes as set out in paragraphs 26.18(a), 26.18(b)(i), 26.18(b)(vi), 26.18(b)(vii) and 26.23.

These paragraphs are reproduced as follows (although only the disclosure information that will be required by small entities in the UK is reproduced):

A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.

FRS 102, para 26.18(a)

The number and weighted average exercise prices of share options for each of the following groups of options:

FRS 102, para 26.18(b) (i), (vi) and v(ii)

- (i) *outstanding at the beginning of the period;*
- (vi) *outstanding at the end of the period; and*
- (vii) *exercisable at the end of the period.*

An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its **financial position**:

FRS 102, para 26.23

- (a) the total expense recognised in profit or loss for the period; and
- (b) the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.

Revenue recognition

A small entity is required to provide the disclosures relating to its performance obligations in contracts with customers – specifically the information required by paragraphs 23.135(a) to 23.135(c). The required information from these paragraphs is reproduced as follows:

An entity shall disclose information about its performance obligations in contracts with customers, including a description of:

Amendments to FRS 102 and other FRSs (March 2024), paras 23.135(a) to 23.135(c)

- (a) when the entity typically satisfies its performance obligations (eg upon shipment, upon delivery, as services are rendered or upon completion of service);
- (b) the significant payment terms (eg when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);
- (c) the nature of the goods or services that the entity has promised to transfer, highlighting any promises to arrange for another party to transfer goods or services (ie if the entity is acting as an agent).

Related parties

In contrast to the current (limited) disclosure requirements of FRS 102 (January 2022), para 1AC.35, the FRC have redrafted this entire paragraph and instead require a small entity to provide the disclosures required by paragraphs 33.9 and 33.14 (subject to the provisions of paragraphs 33.1A and 33.11). Much more comprehensive disclosures will be required by small entities in the UK in respect of related parties and transactions with related parties. Paragraphs 33.9 and 33.14 are reproduced as follows:

If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements.

Amendments to FRS 102 and other FRSs (March 2024), para 33.9

Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation.

At a minimum, disclosures shall include:

- (a) The amount of the transactions.

(b) *The amount of outstanding balances and commitments, and:*

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received.

(c) *Provisions for uncollectible receivables related to the amount of outstanding balances.*

(d) *The expense recognised during the period in respect of bad or doubtful debts due from related parties.*

Such transactions could include purchases, sales, or transfers of goods or services, leases, guarantees and settlements by the entity on behalf of the related party or vice versa.

An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

FRS 102, para 33.14

As noted above, FRS 102 provides an exemption from disclosing transactions entered into between two or more wholly owned members of a group and the small entity can take advantage of this disclosure exemption. For clarity, FRS 102 para 33.1A is reproduced as follows:

*Disclosures required by paragraph 33.9 need not be given of transactions entered into between two or more members of a **group**, provided that any **subsidiary** which is a party to the transaction is wholly owned by such a member.*

Amendments to FRS 102 and other FRSs (March 2024), para 33.1A

Paragraph 33.11 also provides an exemption as follows:

An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions, outstanding balances, and commitments, with:

Amendments to FRS 102 and other FRSs (March 2024), para 33.11

(a) *government that has control, joint control or significant influence over the reporting entity; and*

(b) *another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.*

However, the entity must still disclose a controlling party relationship as required by paragraph 33.5.

Dividends declared and paid or payable

A small entity must disclose dividends paid or payable during the reporting period.

Transition information

On first-time adoption of FRS 102 (e.g. when the entity transitions from FRS 105 to FRS 102, including those that choose to apply the presentation and disclosure requirements of Section 1A), the small entity must provide an explanation of how the transition has affected its financial position and performance as required by paragraph 35.13. For clarity, paragraph 35.13 is reproduced as follows:

To comply with paragraph 35.12, an entity's first financial statements prepared using this FRS shall include:

*FRS 102, para
35.13*

- (a) A description of the nature of each change in accounting policy.*
- (b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:
 - (i) the date of transition to this FRS; and*
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.**
- (c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this FRS for the same period.*

Impact of the additional disclosure requirements

The FRC have moved all the encouraged disclosure requirements from Appendix E to Appendix C and included additional disclosures relating to:

- Leasing
- Provisions and contingencies
- Share-based payment arrangements
- Taxation
- Revenue recognition

On first-time adoption of the periodic review amendments, UK-based small entities are encouraged to ensure the disclosures comply with the new requirements and not simply rely on accounts production software as this could result in errors or omissions. The consequences could be the financial statements are misleading and do not present a true and fair view. Where appropriate, it may be advisable to use an up to date disclosure checklist to ensure the completeness and accuracy of disclosure information.

