

FRS 102 Section 1A – Illustrative accounts

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Introduction

These illustrative financial statements have been prepared to illustrate the key presentational and transitional disclosure issues on moving from existing FRSSE to FRS 102 applicable to small entities, as outlined in FRS 102 Section 1A small entities, and incorporating the revisions to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 implementing the EU Accounting Directive.

Notes to the accounts

One of the key features of the Regulations is a reduction in the number of notes which are required for small companies. This is coupled with a general prohibition on national governments and standard setters imposing additional disclosure requirements. Therefore FRS 102 for small entities does not have as many disclosures as did its predecessor, FRSSE.

True and fair view

Unlike micro-company accounts which are **presumed** to be true and fair, CA 2006 require the accounts to be true and fair and FRS 102 Section 1A suggests that additional disclosures may be necessary to give a true and fair view. It also includes a number of recommendations of items which should be included. These are as follows and they are highlighted in the body of the financial statements:

- (a) The FRS states that "A small entity may need to provide disclosures in addition to those set out in order to enable the financial statements to give a true and fair view" (1A.6);
- (b) A small entity is encouraged but not required to include:
 - (i) A STRGL (Statement of other comprehensive income) where there are gains or losses not recognised in the profit and loss account (1A.9(a));
 - (ii) A Statement of changes in equity, or a Statement of income and retained earnings ((1A.9(b));
- (c) Where relevant to the transactions, other events and conditions, a small entity is encouraged to provide the following disclosures:
 - (i) A statement of compliance with this FRS adapted to refer to Section 1A;
 - (ii) A statement that it is a public-benefit entity as set out in PBE 3.3A;
 - (iii) The disclosures relating to going concern set out in paragraph 3.9. This would require it to disclose material uncertainties that cast doubt on its ability to continue as a going concern, and where relevant, the fact that the going concern basis has not been used, together with a note of the basis adopted;
 - (iv) Dividends declared and paid or payable during the period (for example as set out in paragraph 6.5(b));
 - (v) On first-time adoption of this FRS an explanation of how the transaction has affected its financial position and financial performance as set out in paragraph 35.13 (1AD.1).

Abridged accounts

These regulations permit a small company to prepare abridged accounts, if all the shareholders agree on an annual basis.

Abridgement is not to be confused with the general reductions in note disclosures applicable to small companies and which do not require shareholder approval which derive from the maximum disclosure requirements introduced by the Accounting Directive. Nor is it to be confused with abbreviated accounts under which two sets of accounts were produced, one for the shareholders the other for filing at Companies House.

In an abridged balance sheet, a small company is required to present only those items with alphabetic or roman designations. It is not required to include items prefixed by an Arabic numeral. In practice this means that most of the notes to the balance sheet are no longer required. An abridged profit and loss account may start with gross profit (see page 3).

In these illustrative accounts where the requirement for a note has been removed for all small companies, it is shown by use of the strike through font, ~~like this~~. Where information is not required because abridged accounts are being prepared, this is illustrated by highlighting the text **like this**

Titles for financial statements and individual items

FRS 102 permits the use of titles for the financial statements themselves other than those used in the standard provided they are not misleading.

BIS stated in their follow up to their discussion document that they would legislate to simplify the presentation of individual items within the financial statements and the revisions to FRS 102 appear to allow entities to use terms other than those used in some items which in the formats included an alphabetic or roman numeral prefix.

We have used FRS 102 terminology throughout for the financial statements, and predominantly for items within the financial statements. For example, we refer to income statement and statement of other comprehensive income rather than profit and loss account and statement of total recognised gains and losses. We refer to inventories and property, plant and equipment rather than stocks and work in progress and tangible fixed assets.

New requirements

New items are included in **this font**. Note that notes 35 -37 included under this category are only required in the year of transition under FRS 102, are only recommended for small companies under FRS 102 Section 1A small entities and are neither required not recommended under FRS 105

Guidance and limitations

Guidance notes are included within text boxes or as narrative notes in *this font*.

Note that these are not intended to be comprehensive or model accounts. In particular

- (a) Not all items which could be included are covered. The financial statements do not include a defined benefit pension scheme nor share-based payments.
- (b) Nor are all detailed disclosures, whether required by the Act or FRS 102 necessarily disclosed. In particular the disclosures relating to financial instruments are not dealt with.

Effective date

Both FRS 102 for small companies and the company law changes are mandatory for periods commencing on or after 1 January 2016 (one year later than for FRS 102 itself).

They may, however, be adopted for periods commencing on or after 1 January 2015. FRS 102:

- (a) **Permits** early adoption of FRS 102, provided that the revised regulations are also early adopted; and
- (b) **Requires** early adoption of FRS 102 where the regulations are to be early adopted.

An entity which chooses not to early adopt, has one more year to get to grips with the recognition and measurement issues.) Note however that they would have to change to FRSSE 2015 for the year ended 31 December 2015 and then to draft FRS 102 for small entities for subsequent periods. For many entities making the first transition will have few, if any, accounting entries since the only changes are:

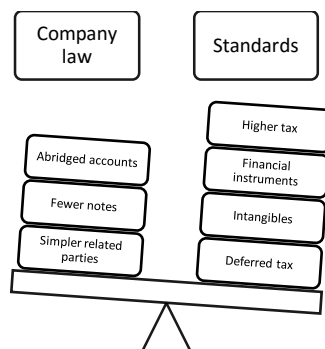
- (a) Amended definition of related parties to be consistent with FRS 8 and IAS 24;
- (b) Requirement that if it cannot be measured reliably the useful life of goodwill and intangibles may not exceed five years (to be changed to ten years if cannot be measured reliably in exceptional circumstances in line with the changes in the accounting regulations.
- (c) A requirement for an annual assessment as to whether an impairment review is required.

Early adoption

There are two issues to consider before making the decision whether to early adopt, or wait until the last possible date:

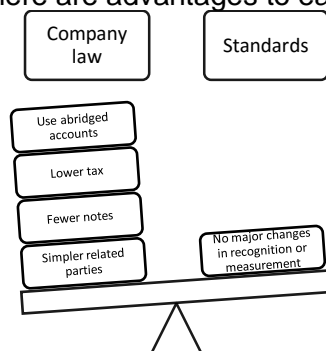
- (a) Does transition to FRS 102 introduce any major changes which would suggest making the transition at the last possible date?
- (b) Does client wish to take advantage of the simplified disclosures including the ability to prepare abridged accounts?

This can be illustrated as follows:



If the client considers that the burden imposed by FRS 102 is greater than the advantages under the revised regulations it will not early adopt.

On the other hand it may well find there are advantages to early adoption.



Early adopt?

For many companies, therefore, the decision should be to early adopt FRS 102 for small entities because the accounting will be very similar to FRSSE, and some of the required changes are tax advantageous. If for example a small company has a material holiday pay accrual or lease incentive, early adoption of the new treatment accelerates tax relief.

The reduced disclosures, including those related to related parties, and the option to prepare abridged accounts for shareholders mean that clients may wish to early adopt the company law changes.

As noted above an entity cannot adopt the company law changes unless it also adopts FRS 102 Section 1A. Having noted that there are no disadvantages of early adopting FRS 102, the company law changes can be adopted.

Wait until the last minute?

This will usually only be appropriate if there are complications in adopting FRS 102 for example the need to fair value financial instruments such as interest rate swaps or where FRS 102 results in a higher taxable profit than FRSSE.

Micro-companies

Within the illustrative accounts we have included guidance on the key differences between Draft FRS 102 for small entities and FRS 105 using the following font [like this](#).

Other comments

It is recommended that the first actual FRS 102 accounts are prepared using proprietary model accounts and accounts disclosure checklists.

The original accounting formats are prepared under FRSSE 2008 and are for the year ended 31 December 2016 but in practice you could use earlier accounts on which to base your planning.

Cash flow statement

A small company is not required to produce a cash flow statement. If it chooses to prepare one, it would be required to follow the provisions of FRS 102 chapter 7 in relation to form and content. In order to illustrate the significant changes within the cash flow statement we have included an example as an appendix to these illustrative financial statement. In practice, of course, it would probably appear immediately before the accounting policies note.

Smallco Limited
Income statement Profit and loss account for the year ended 31 December 2016
Statement of income and retained earnings for the year ended 31 December 2016 (see below)

FRS 102
Section 5

A micro-company is required to prepare its profit and loss account in accordance with the alternative format in the Regulations.

TURNOVER

Cost of sales (including value adjustments)

GROSS PROFIT

Abridged accounts can start with gross profit. Note that this includes other operating income. However can such accounts be true and fair with no disclosure of turnover?

Distribution costs (including value adjustments)
Administrative expenses (including value adjustments)
Other operating income
Value adjustments on fixed assets and current asset investments

The use of operating profit is not required by FRS 102. If it is used it must be used appropriately.

OPERATING PROFIT (LOSS)

Exceptional items:

- Profit (loss) on sale of fixed assets
- Cost of fundamental reorganisation / restructuring
- Profit (loss) on sale or termination of an operation

Bad debts

Profit (loss) on ordinary activities before interest
 Other interest receivable and similar income

Value adjustments on fixed assets and current asset investments

Interest payable and similar charges

PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Tax on profit on ordinary activities

PROFIT (LOSS) FOR THE FINANCIAL YEAR/PERIOD

RETAINED EARNINGS AT 1 JANUARY 2016

Restatement of retained earnings for changes in accounting policy

Restatements of retained earnings for corrections of prior period errors

Dividends declared and payable for the period

RETAINED EARNINGS AT 31 DECEMBER 2016

FRS 102 requires fair value adjustments on investment properties and some financial instruments to be recognised in profit and loss account.

These could be included within the format heading Other Operating Income or a new heading such as value adjustment. The revised Accounting Directive has "including value adjustments" in a number of the format expense headings, as well as a separate heading for "value adjustments on fixed assets and current asset investments" as shown here. These amendments have not been made in the UK formats but there is no reason why the headings may not be adopted.

One factor to consider is whether or not such gains should be included as part of operating profit, as for example in an investment property company. Otherwise it may be more appropriate to show such gains adjacent to investment income and similar items

FRS 3 and FRSSSE require exceptional items to be included in the relevant line item apart from the so-called "super exceptional items".

FRS 102 does not use the term exceptional items and there are therefore no super-exceptional items.

FRS 102 does, however, require the presentation of additional lines, headings and subtotals, if relevant to an understanding of the financial performance of the entity e.g. the bad debts item highlighted here.

The Regulations also include a requirement for disclosure of 'the amount and nature of any individual items of income or expenditure of exceptional size or incidence.'

FRS 102 6.4 permits the inclusion of a single Statement of income and retained earnings where the only changes in equity are profit or loss, payment of dividends, corrections of prior period material errors and changes in accounting policy. Note the requirement to amend the title of the statement to include reference to the statement of retained earnings.

*A small company statement is not **required** to produce such a statement but is **encouraged** to do so.*

A small company is permitted not to file its profit and loss account or directors' report. This includes notes to the profit and loss account. Accordingly it is not required to file the Statement of Income and retained earnings

The annexed notes form part of these financial statements.

Smallco Limited
Statement of other comprehensive income ~~Statement of total recognised gains and losses~~ for the
year ended 31 December 2016

*FRS 102 section 1A small entities states that a small company does not require a statement of other comprehensive income. This is a change from the requirement in FRSSE 2008 where a STRGL was required if there were other gains and losses e.g. revaluation of freehold property. It does however **encourage** the inclusion of such a statement.*

A statement of other comprehensive income is not required by FRS 105, nor is one encouraged.

	2016 £	2015 £
FRS 102 Section 5		
FRS 102 allows a single statement approach		
Profit (loss) for the financial year		
Unrealised surplus (deficit) on revaluation of freehold properties		
Unrealised gain (loss) on investment properties		
Gains on investment properties are recognised in the income statement under FRS 102 (see previous page).		
Taxation		
Under FRS 102 deferred tax is provided on those revaluation gains and losses which continue to be shown in the Statement of Other Comprehensive Income		
Total recognised gains and losses relating to the year		
Prior year adjustment (as explained in note _____)		
Total gains and losses recognised since last financial statements		
Under FRS 102, prior year adjustments are reflected in the Statement of Changes in Equity, not at the foot of the STRGL / SOCI (see page 4)		

Smallco Limited
Statement of financial position Balance sheet at 31 December 2016

		2016		2015
	Note	£	£	£
FRS 102 Section 4				
Company registration number: 122345527				
FIXED ASSETS				
Intangible assets	11			
Tangible assets Property, plant and equipment				
Investment property				
Investments Financial assets				
CURRENT ASSETS				
Stocks Inventories				
Debtors	16			
(including £ ___ due in more than 1 year, 2014 £ ___)				
Investments Financial assets	17			
Cash at bank and in hand				
CREDITORS: Amounts falling due within one year	18			
NET CURRENT ASSETS (LIABILITIES)				
TOTAL ASSETS LESS CURRENT LIABILITIES				
CREDITORS: Amounts falling due after more than one year	19			
PROVISIONS FOR LIABILITIES				
NET ASSETS				
CAPITAL AND RESERVES				
Called up share capital	22			
Share premium account				
Revaluation reserve				
Fair value reserve				
Profit and loss account				
SHAREHOLDERS' FUNDS				

Initially it was considered that the individual asset / liability headings under FRS 102 could not be used and those under CA 2006 should be. FRS 102 section 1A small entities appears to allow more flexibility in the use of items and we have therefore included the FRS 102 titles. There is no **requirement** to change from the CA headings!

In most cases FRS 102 considers it sufficient to include this information in the notes (4.4A)

The Revaluation reserve will in future exclude revaluation surpluses on investment properties. They will be included within retained earnings or fair value reserve (see below).

Fair value reserve is not one of the format headings. However the Regulations include requirements for disclosures within the fair value reserve. In practice therefore it would appear to be sensible to include a fair value reserve on the face of the balance sheet.

See also notes on the Statement of changes in equity on page 4.

The revisions to FRS 102 encourage a small entity to disclose compliance with FRS 102, adapted to refer to section 1A

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of ~~FRSSE 2008~~ **FRS 102 Section 1A – small entities.**

These financial statements were approved and authorised for issue by the Board on

Signed on behalf of the board of directors
 [SIGNATURE] - Director
 [NAME]
 DATE

The notes on pages to form part of these accounts.

Smallco Limited
Statement of changes in equity for the year ended 31 December 2016

FRS 102 introduces a new primary statement, the **Statement of changes in equity**. A small company is not **required** to include one but is **encouraged** to do so. **There is no requirement or recommendation for a micro-company to have a SOCE.**

	Share Capital	Share Premium	Revaluation Reserve	Fair value Reserve	Retained earnings	Total
See FRS 102 Section 6						
Balance at 1 January 2015						
As previously reported						
Prior period adjustments						
Change in accounting policy						
Prior period adjustment						
Correction of material error						
As restated						
Share issue during the year						
Profit for the year						
Other comprehensive income for the year						
Transfers						
Dividends						
Balance at 31 December 2015						
Share issue during the year						
Profit for the year						
Other comprehensive income for the year						
Transfers						
Dividends						
Balance at 31 December 2016						

Under FRSSSE prior period adjustments would have been shown at the foot of the STRGL, as well as in the reconciliation of shareholders' funds. Under FRS 102 they are shown in SOCE

Under FRSSSE previous financial statements and opening equity would only have been adjusted for the correction of **fundamental** errors. FRS 102 requires restatement for **material** errors.

FRS 102 Section 22 requires the issue of shares to be recognised at fair value of the cash or other resources received or receivable, net of direct costs of issue less any related income tax benefit. FRS 19 had no concept of tax being recognised in equity.

Under FRS 102, revaluation of investment property and irredeemable preference shares and non-puttable ordinary and preference shares will appear in profit for the year and hence in retained earnings. These gains are unrealised and therefore not available for dividends.

An entity is permitted, but not required to make a transfer to an appropriate reserve (using Statement of changes in equity) to emphasise that such gains are not realised. It is probable that a fair value reserve would be most appropriate.

Alternatively a note could be included to explain (see foot of table.)

FRS 102 does not give a format for the SOCE. It would be acceptable to show a single figure for net comprehensive income or indeed to show gross and tax figures.

The Statement of changes in Equity is required to include comparatives. Given the difficulties of including comparatives for a number of columns side by side, it is probable that this layout will be used.

Included in retained earnings is £x (2015 - £X) of profits which are not available for distribution as they are unrealised

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

In the notes to the financial statements which follow we include only items which are specifically referred to in the formats within the Regulations, and which regularly appear in small company accounts. This is on the assumption that an entity wishes to disclose the minimum information. These headings may, of course, be adapted to provide more information for the shareholders. For example within tangible fixed assets many entities choose to add motor vehicles and computer equipment. Also it is interesting to note that there is no requirement to disclose items such as prepayments and accrued income or accruals and deferred income separately, although most people do. They can be included within debtors or creditors respectively.

The only notes required by the micro-regulations and FRS 105 are advances to directors (note 27) and guarantees and commitments (note 31).

In the notes which follow we include commentary on the differences in accounting treatment i.e. recognition and measurement between FRS 102 and FRS 105.

1 STATUTORY INFORMATION

Smallco Limited is a private company, limited by shares, domiciled in England and Wales, registration number 122345577. The registered office is Hogwarts Castle, Somewhere, County, HW1 1GF.

S 396 A1 CA 2006 requires disclosure of:

- (a) Country of registration specifically part of UK,*
- (b) Registered number,*
- (c) Whether private or public,*
- (d) Whether limited by shares or guarantee*
- (e) Where appropriate if being wound up*

FRS 102 3.24 requires disclosure of the legal form of the entity, its country of incorporation and the address of its registered offices (or principal place of business if different from the registered office). A small company is not required to include the principal place of business by FRS 102 Section 1A small entities.

FRS 102 3.24(b) also requires disclosure of the nature of the operations and its principal activities unless disclosed in a business review or similar document. Companies were required to include such disclosure in the directors' report until the requirement was removed for periods ending on or after 30 September 2014. As this is not a mandatory note under the Accounting Directive it is not included within FRS 102 Section 1A.

2 COMPLIANCE WITH ACCOUNTING STANDARDS

The accounts have been prepared in accordance with the ~~Financial Reporting Standard for Small Entities effective April 2008~~ the provisions of FRS 102 Section 1A small entities. There were no material departures from that standard.

FRS 102 3.4 requires an unreserved statement of compliance with the standard in the notes. This could be incorporated within the accounting policies note, or as here as a separate note.

*As noted on the balance sheet, FRS 102 for small entities **encourages** the inclusion of a statement of disclosure of compliance with FRS 102 adapted to refer to Section 1A. This could be on the balance sheet, in the accounting policies or both.*

3 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year/period, and also have been consistently applied within the same accounts.

*Accounting policies is one of the mandatory notes in the revised Regulations. FRS 102 Section 1A **requires** disclosure of changes in accounting policies as one of the factors required to be disclosed by the regulations when previously reported figures are revised.*

The accounting policy notes which follow are those included under previous FRSE adapted for FRS 102. The annotations in this section illustrate areas where change may be necessary. This is not an exhaustive list of accounting policies or potential changes but for illustration purposes only.

In the year of transition, FRS 102 encourages entities to include the explanation of transition required by FRS 102 section 356. There is no equivalent guidance in FRS 105.

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

If a small company does include an explanation of transition, it will be on the following lines. The underlined text is based on the illustration in Staff Education Note 13, although the third paragraph is not included in the Staff Education Note it would seem sensible to include such wording.

These financial statements for the year ended 31 December 2016 are the first financial statements that comply with FRS 102 Section 1A small entities. The date of transition is 1 January 2014.

The transition to FRS 102 Section 1A small entities has resulted in a small number of changes in accounting policies to those used previously.

The nature of these changes and their impact on opening equity and profit for the comparative period are explained in notes 35 to 37 below.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

A micro-company is not permitted to revalue fixed assets

The presentation currency is £ sterling.

FRS 102 3.23 (d) requires disclosure of the presentation currency as defined in Section 30 as “The currency in which the financial statements are presented.” It can be argued that the use of the £ sign for each column, note etc. fulfils that requirement, or it can be included as a separate note as here.

Goodwill and intangibles

Goodwill is capitalised and is being amortised over its useful life of 20 years.

Initial recognition

FRS 102 requires initial recognition at cost, and then gives an accounting policy choice of the cost model or the revaluation model. In practice it is unlikely that the revaluation model will be used frequently.

*FRS 102 will result in the inclusion of more intangibles separate from goodwill, as it includes intangibles arising from legal or contractual rights as well as those which would have been recognised under FRSE as being separable. There may therefore be a requirement for more detailed accounting policy notes to cover inter alia, useful lives. **FRS 105 prohibits the recognition of intangible assets separately from goodwill. Since FRS 105 is not permitted if group accounts are prepared, it is only necessary to apply the business combination provisions to purchases of trade and assets***

Amortisation

FRS 102 requires goodwill and intangibles to have a finite life. In the absence of a readily ascertainable useful life, useful life must not exceed 10 years. This is expected to arise only in exceptional circumstances.

Transitional exemption

*There is a transitional exemption for business combinations before the date of transition under which the entity may elect not to restate under section 19, and therefore not to recognise separate intangible assets. Note that if a business combination is restated under Section 19 all **subsequent** business combinations must be restated.*

Research and development

Expenditure on research is written off against profits in the year in which it is incurred. Development expenditure is capitalised and amortised over its useful life.

SSAP 13 requires research expenditure to be written off and gives a choice in relation to the recognition of development expenditure as an intangible provided certain criteria are met. FRS 102 continues to permit such capitalisation. FRS 102 gives more flexibility in capitalising internally generated intangibles than previous UK GAAP which may be capitalised under FRS 102 18.8-10A. These may, for example, include computer software, developed for internal use rather than for sale which may currently be included under tangible fixed assets and which may need to be transferred on transition. Operating systems are likely to be included in property, plant and equipment, application software in intangibles (if material.)

FRS 105 requires all research and development expenditure to be written off as incurred.

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

*There is a transitional exemption in FRS 102 5.10 (n) permitting the use of costs recognised under SSAP 13 as its deemed cost at the date of transition. If used, this exemption should be referred to in the accounting policy. **There is no such option under FRS 105.***

Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less depreciation and impairment. Depreciation has been computed to write off the cost of tangible fixed assets over their expected useful lives as follows:

Freehold land	-	No depreciation
Freehold buildings	-	2% per annum of cost
Leasehold property	-	equal instalments over the period of the lease
Plant and machinery	-	10 years
Fixtures and fittings	-	8 years
Motor vehicles	-	4 years

*FRS 102 Section 17 requires initial recognition at cost, and then gives entities an accounting policy choice for subsequent remeasurement of the cost or revaluation models. Where assets are included under revaluation the regulations require the inclusion of provision for deferred tax. **FRS 105 and micro-regulations prohibit including revaluation of assets.***

*FRS 102 **and FRS 105** require major items of spare parts and stand-by equipment to be included in property, plant and equipment where expected to be used over more than one year or where it can be used only in connection property, plant and equipment, which may represent a change from current treatment.*

*Other than for entities taking the option to use the revaluation model, FRS 102 **and FRS 15** are not expected to change depreciation policies. There are no bright line requirements for revaluations at five yearly intervals. The revaluations should be with sufficient regularity that the carrying value does not differ materially from what it would be on a fair value basis.*

Note however that residual value is reassessed at the end of each accounting period, unlike under FRS 15. This may impact on the amount of depreciation charged, especially in the early years after transition.

*Both FRS 102 **and FRS 105** require the separate depreciation of major components of fixed assets with different useful lives. This should have been the case under FRSSE and FRS 15 but was often not followed.*

*An impairment review is only required under FRS 102 **or FRS 105** where there is an indication of impairment. Under the amendment to the FRSSE on the adoption of FRS 102, there is a requirement to consider on an annual basis whether there is an indication of impairment. It is believed that this rectified an omission made on the updating of FRSSE for FRS 11.*

*Renewals accounting which is permitted in FRS 15 is not permitted in FRS 102 **or FRS 105.***

*There are transitional exemption provisions in FRS 102 35.10 (c) and (d) to include fair value or previous revaluations as deemed cost. **These are not available under FRS 105.***

Where an entity takes advantage of these exemptions, this will need to be reflected in the accounting policy note

Investment property

Investment property is included at **market fair value**. Gains are recognised in ~~the statement of recognised gains and losses~~ **the income statement**. Deferred taxation is ~~not~~ provided on these gains ~~as there is no current intention to dispose of them~~ **at the rate expected to apply when the property is sold.**

There are differences in the legal basis which governs the inclusion of investment properties at fair value under new UK GAAP compared to previous GAAP.

Previously, such valuations would have been under the alternative accounting rules and accordingly non-depreciation would be a departure from the Companies Act to give a true and fair view. Under FRS 102, the valuation would be under the fair value provisions of CA 2006, and is not a departure. Hence the suggestion in the balance sheet and SOCE that gains be included in a fair value reserve rather than the revaluation reserve.

Where the fair value of an investment property cannot be measured reliably it should be included under property, plant and equipment i.e. tangible fixed assets at cost and depreciated and, where necessary, impairment. This is expected to arise rarely.

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

Investment property is defined as “property (land or a building or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business”.

There is no exemption for group properties leased to other group companies. However, based on the above definition, it can be argued that some of the group arrangements involving companies which hold properties and let them to other group companies are for administrative purposes, and therefore are not investment properties.

*A small entity may take advantage of the transitional exemptions in 35.10 (c) or (d) to include fair value or revaluation as deemed cost. This is only going to be relevant if the property is being included at cost, on the basis that fair value cannot be measured reliably. **A micro-entity may not use the transitional exemptions.** If either exemption is used, this should be included in the accounting policy note.*

Leasing

~~Tangible fixed assets~~ **Property, plant and equipment** acquired under finance leases or hire purchase contracts are capitalised and depreciated in the same manner as other tangible fixed assets. The related obligations, net of future finance charges, are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

*In general, it is expected that few lease classifications under FRSE will be treated differently under FRS 102 **or FRS 105**, but lease agreements should be checked to confirm.*

*The accounting treatment under FRS 102 **and FRS 105** is the same as under FRSE – capitalise finance leases and expense operating leases.*

Transitional exemption An entity has the option to determine whether an arrangement contains a lease to be made at the date of transition, rather than at the date of commencement of the lease.

Lease incentives

The benefits of lease incentives are recognised in profit and loss account over ~~the shorter of the lease period and the period to the next rent review at which rent is expected to be reset to market rates.~~

*FRS 102 **and FRS 105** require lease incentives to be recognised over the term of the lease. Under UITF 28 they would have been recognised over the shorter of the terms of the lease and the period to the date of the next rent review.*

The term of the lease is defined as “the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.”

Transitional exemption

An entity is not required to restate incentives received on leases entered into before the date of transition but may do so. It is probable that a lessee will decide not to take up the transitional exemption but the lessor will choose to do so.

Investments

Investments in shares are included at ~~cost less impairment~~ **fair value**.

FRS 102 requires the inclusion of irredeemable preference shares and non-puttable ordinary or preference shares at fair value, where the fair value can be measured reliably. Otherwise they are included at cost less impairment. The general view is that it should be feasible to obtain such fair value even for private companies. These gains should be recognised within profit or loss (see notes on page one re where to include such gains).

Shares in subsidiaries, associates and jointly controlled entities are not covered by section 11 of FRS 102. There is an accounting policy choice within section 9 to include such shares at cost, fair value with gains in OCI or fair value with gains in profit or loss.

Under FRS 105 shares are included at cost less impairment.

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

Stocks (and work in progress) Inventories

~~Stocks (and work in progress)~~ **Inventories** have been valued at the lower of cost and ~~net realisable value~~ **estimated selling price less costs to sell**. In respect of work in progress and finished goods, cost includes a relevant proportion of overheads according to the stage of manufacture/completion.

*Neither FRS 102 **nor FRS 105** are likely to see a change in accounting policies, and therefore valuations, for **goods** in stock from those adopted under SSAP 9, other than the changes in terminology. SSAP 9 and FRSE require the inclusion of stocks at the lower of cost and net realisable value. FRS 102 and 105 require inclusion at "the lower of cost and expected selling price less costs to complete and sell".*

However, some items of spare parts may need to be transferred to property, plant and equipment.

*SSAP 9 includes "services in course of completion" within stock and thus allows service work in progress to be included. Neither FRS 102 Section 13 nor **FRS 105 Section 10** apply to services but apply only to assets. Similarly SSAP 9 and FRSE include guidance on long-term construction contracts. Both of these areas are now included within FRS 102 Section 23 Revenue (**FRS 105 Section 18**)*

Biological assets

Biological assets, living plants and animals are included at the lower of cost and ~~net realisable value~~ **estimated selling price less costs to sell**.

FRS 102 gives an accounting policy choice of fair value or the lower of cost and selling price less estimated costs to complete and sell.

FRS 105 requires the lower of cost and selling price less estimated costs to complete and sell.

Income recognition

Income is recognised when goods have been delivered to customers such that risks and rewards of ownership have transferred to them.

*The general view amongst commentators is that FRS 102 **and FRS 105** are unlikely to result in changes to income recognition accounting policies, provided, of course that the entity's policies complied with previous GAAP e.g. FRS 5 and UITF 40 (see for example Staff Education Note 7.) However there may be changes when dealing with sales on deferred terms and those on a contingent fee basis (see below).*

Sales on deferred terms

One area which may give rise to change is the explicit requirement in FRS 102 23.5 that where payment is deferred under a financing transaction the fair value of the consideration is measured at the fair value of all future receipts determined using an imputed rate of interest, although even here FRSE 5.38 requires that where the time effect of money is material the amount of the revenue recognised in the period should be the present value of the cash inflows expected to be received. In other words such revenues should have been discounted under FRSE.

The treatment under FRS 105 is simpler in that any difference between the cash price at the date of the transaction and the price for deferred credit is treated as interest and is credited on a straight line basis over the term of the agreement. Therefore if the price for extended credit is the same as for cash, there is no accounting adjustment under FRS 105.

Sales on a contingent fee basis

It is also possible that the treatment of sales on a contingent fee basis will change under FRS 102 and FRS 105. Prior to the issue of FRS 102 and FRS 105, it could be argued that income did not need to be recognised at the reporting date, as there was no asset at that date. Alternatively, it could be argued that such cases should be included as work in progress at cost. Under FRS 102 and FRS 105 revenue is required to be recognised from the provision of services on the percentage of completion method where it can be measured reliably. This requires all of the following conditions to be satisfied:

- (a) the amount of the revenue can be measured reliably;*
- (b) it is probable that the economic benefits associated with the transaction at the end of the reporting period will flow to the entity;*
- (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and*
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.*

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

The final piece of the jigsaw is found in paragraph 23.16 which states that “when the outcome of the transaction cannot be estimated reliably, an entity shall recognise revenue only to the extent of the expenses recognised that are recoverable.” Note that this results in the same gross profit as under SSAP 9 but different turnover and cost of sales.

As a result of this change it is probable that fees on a contingent fee basis will be recognised earlier under new UK GAAP than old.

Deferred taxation

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes.

Tax deferred or accelerated is accounted for in respect of all material timing differences ~~except on the revaluation of freehold property and investment property unless, by the balance sheet date, the reporting entity has:~~

- ~~(a) entered into a binding agreement to sell the revalued assets; and~~
- ~~(b) recognised the gains and losses expected to arise on sale.~~

FRS 102 removes the current exemptions in FRS 19, as well as introducing new timing differences such as those relating to the inclusion of shares at fair value.

There may also be additional timing differences arising from the changes in Section 28 Employee benefits where a remuneration expense is recognised but is not payable within the period or within nine months of the end of the reporting period. Such differences will arise for example where holiday pay can be carried forward more than nine months after the year end and where there is a requirement to include a deficit on a multi-employer scheme which was not recognised previously, but where tax relief is only available as pension contributions are made.

FRS 105 prohibits the inclusion of deferred tax.

~~Deferred tax assets and liabilities are discounted to reflect the time value of money.~~

FRS 102 prohibits discounting of deferred tax.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction, ~~except when covered by a forward exchange contract when the contracted rate is used.~~

One area where the current accounting policy may need to change under FRS 102 is that FRSE allowed an entity to translate purchases in foreign currencies at the rate of exchange specified in a matching forward contract.

This is not permitted by FRS 102 which requires purchases to be translated using the spot exchange rate on the date of the transaction. The forward exchange contract is a derivative financial instrument which is required to be included at fair value. There is an example in Staff Education Note 13 illustrating this and the related treatment of the derivative financial instrument. As an approximation to the use of the spot rate, an average for a week or month can be used.

FRS 105 requires the recognition of such transactions at the forward contract rate!

Balances at the year-end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date.

FRS 102 allows the use of a presentation currency as well as a functional currency. The functional currency is “The currency of the primary economic environment in which the entity operates”.

It is expected that few entities will choose a different currency than the functional currency, but if an entity does so, then the accounting policy will need to be adapted.

FRS 105 does not permit the use of a separate presentation currency.

Government grants

Government grants in relation to tangible fixed asset are credited to profit and loss account over the useful lives of the related assets, whereas those in relation to expenditure are credited when the expenditure is charged to profit and loss.

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

FRS 102 provides an accounting policy choice for government grants of the performance model and the accruals model. On this basis, a grant towards the purchase of tangible fixed assets may be recognised in full when the conditions are met. Under SSAP 4 such a grant would be credited over the life of the asset. FRS 105 requires the use of the accruals model.

Pension costs

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are recognised in profit and loss account when due.

FRS 102 potentially changes the treatment of defined benefit schemes which are multi-employer or group schemes, and where such changes apply, this should be reflected in the accounting policies.

These changes are:

- (a) Where a multi-employer scheme has a deficit and an agreement as to the funding of that deficit, the members must include that share of the deficit, even if it is not currently payable under the schedule of contributions.*
- (b) In a group plan, the deficit or surplus must be recognised in the individual accounts of the group members in accordance with a contractual agreement or stated policy. If not, the whole of the net defined benefit cost must be borne by the group entity which is legally responsible for the plan, in which case the other group entities recognise only their contributions payable for the period.*
- (c) The treatment of the return on investment assets also changes which will impact on the amount recorded in profit and loss account and other comprehensive income. Under FRS 17 the expected return on plan assets was included in profit for the year, as was interest on plan liabilities at the return on a high quality bond. Under FRS 102, interest on the net asset or liability is recognised in profit and loss and the difference between the actual return and the rate included in profit and loss account is adjusted as part of the remeasurement recognised in other comprehensive income.*

Financial instruments

Basic financial instruments are recognised at amortised cost, except for investments in non-convertible preference and non-puttable ordinary shares which are measured at fair value, with changes recognised in profit or loss. Derivative financial instruments are initially recorded at cost and thereafter at fair value with changes recognised in profit or loss.

It is quite possible that an entity does not already have an accounting policy for financial instruments. Even if it does it is probable that it will need to be amended to reflect the changes required by FRS 102 Sections 11 and 12. FRS 105 does not apply the effective interest method but a simpler method.

Staff Education Notes 2, 13 and 16 give illustrations of the practical implications on transition.

4 ——— TURNOVER

The company's turnover represents the value, excluding value added tax, of goods and services supplied to customers during the year/period. * ——— % of the company's turnover related to exports (2014 ——— %).

The 3 notes to the profit and loss account, given under old UK GAAP and company law i.e. turnover, profit and tax are not included in the revised Regulations and are therefore not required for any small company. Accordingly FRS 102 Section 1A cannot require them. The only note to the profit and loss account is the requirement to disclose exceptional items.

5 OPERATING PROFIT (LOSS) PROFIT BEFORE TAX

Operating profit is stated after charging:-

- Directors' remuneration
- Contributions to a directors pension scheme (by which money purchase benefits will be calculated)
- Compensation to directors or past directors in respect of loss of office
- Auditors' remuneration (including expenses and benefits in kind)
- Depreciation and amortisation of owned assets

Since FRS 102 does not require the disclosure of operating profit, the disclosures in this section, if any, which are primarily required by the Companies Act will probably be cross referred to profit before tax.

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Notes to the financial statements for the year ended 31 December 2016

~~— Depreciation of assets held under finance leases and hire purchase contracts~~
~~— Loss on sale of tangible fixed assets~~
~~— Exceptional items: - [List]~~
~~Other line items considered relevant~~
~~— Exceptional items: - [List]~~
~~and after crediting:~~

~~Profit on sale of tangible fixed assets~~

~~During the year (2015) directors were accruing benefits under money purchase pension schemes.~~

6 TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES

(a) Analysis of charge in period

	2016 £	2015 £
Current tax:		
UK Corporation tax on profits of the period		
Adjustments in respect of previous periods		
Total current tax (note (10)(b))		
Deferred tax:		
Origination and reversal of timing differences		
Effect of increased tax rate on opening liability		
Total deferred tax (note 18)		
Tax expense (income) arising from a change in accounting policies (see FRS 102 29.26 (f))		

*Discounting is not permitted by FRS 102.
FRS 102 29.10*

~~The effect of the exceptional item at note 3 is as follows:~~

~~(b) Factors affecting tax charge for period~~

~~(c) Factors that may affect future tax charges~~

~~The effect of the exceptional item(s) at note 3 is as follows:~~

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Notes to the financial statements for the year ended 31 December 2016

7 FIXED ASSETS

Paragraph 48 (1) of the regulations requires that movements should be shown "for each item "which is Shown under fixed assets". Given that abridged accounts only require those items with an alphabetic or roman heading, the note under section 48 (1) is likely only to require movements on these format headings and the notes 7 – 10 below will disappear.

If abridged accounts are not produced this note will not be required and separate notes will be required for intangible assets, tangible assets and investments as in notes 7 – 10 below.

	Intangible Assets £	Tangible Assets £	Investments £	Total £
Cost:				
At 1 January 2016				
Additions				
Fair value movements				
Disposals				
At 31 December 2016	_____	_____	_____	_____
Amortisation:				
At 1 January 2016				
Charge for the year				
Impairment				
Eliminated on disposals				
At 31 December 2016	_____	_____	_____	_____
Net book value:				
At 31 December 2016	_____	_____	_____	_____
At 31 December 2015	=====	=====	=====	=====

The Regulations differentiate between revalued fixed assets under the alternative accounting rules of part C and those carried at fair value under Part D. In relation to fixed assets this would seem to indicate that freehold property is carried under part C, whereas investment property and investments are carried under part D.

Fixed assets at revaluation and the revaluation reserve (Section C)

Where fixed assets are included under the revaluation model Regulation 49 requires disclosure of

- (a) The years so far as they are known to the directors in which the assets were valued; and
- (b) In the case of assets that have been valued in the year the names of the persons who valued them or particulars of their qualifications for doing so and the bases of valuation used by them.

Paragraph 34 (3) of Schedule 1 to the regulations requires disclosure of the comparable amounts under the historical cost convention and the movements on the revaluation reserve.

Investments and other fixed assets and the fair value reserve (Section D)

FRS 102 does not distinguish between investments held as fixed assets and those held as current assets. Typically the only investments held by a small company, other than investment property, will be shares. These are required to be measured at fair value where they can be measured reliably.

As noted in the accounting policy note, investment property is included under the Fair Value Accounting Rules of Section D rather than the Alternative Accounting Rules of Section C.

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Notes to the financial statements for the year ended 31 December 2016

Fair value gains and losses on the above assets are recognised in profit or loss.

Paragraph 49 of Schedule 1 to the regulations requires disclosure of the following:

- (a) The significant assumptions underlying the valuation models and techniques used to determine fair values;
- (b) For each category of financial instruments or other category of assets held at fair value,
 - (i) the fair value of the assets in that category; and
 - (ii) the changes in value included directly in profit and loss account.

There is also a requirement for disclosure of the movements in tabular form for movements in the fair value reserve, when amounts are transferred to or from it. This requirement would be met by including a Statement of Changes in Equity. If one is not included a fair value reserve note would be required.

There is no such requirement under Part D.

Paragraph 54 of Schedule 1

This paragraph applies where fixed assets are included at revalued amounts and requires disclosure of movements in revaluation reserve in the financial year with an explanation of the tax treatment of items and the carrying amount in the balance sheet that would have been recognised had the fixed assets not been revalued.

If abridged accounts are not produced, and the information is disclosed for each of the individual fixed asset headings as in notes 7 – 11 below, the above guidance applies to each fixed asset heading.

7 INTANGIBLE FIXED ASSETS

	Goodwill £	Other intangible assets £	Total £
Cost:			
At 1 January 2016			
Additions			
Disposals			
At 31 December 2016			
Amortisation:			
At 1 January 2016			
Charge for the year			
Impairment			
Eliminated on disposals			
At 31 December 2016			
Net book value:			
At 31 December 2016			
At 31 December 2015			

Under FRS 102 section 27, an impairment review is only required when there is an indicator of impairment. Under FRS 10 and 11 an impairment review was required where the life of an intangible asset was > 20 years, and in the first year after a business combination. The treatment under section 27 is the same as under FRS 11 i.e. compare the carrying amount with the recoverable amount, which is defined as the higher of value in use and fair value less costs to sell.

FRS 105 adopts the same approach.

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Notes to the financial statements for the year ended 31 December 2016

8 TANGIBLE FIXED ASSETS PROPERTY PLANT AND EQUIPMENT

	Land and buildings £	Plant and machinery etc. £	Total £
Cost (* or valuation):			
At 1 January 2016			
Additions			
Disposals			
At 31 December 2016			
Depreciation:			
At 1 January 2016			
Charge for the year			
Impairment			
Eliminated on disposals			
At 31 December 2016			
Net book value:			
At 31 December 2016			
At 31 December 2015			

The net book value of land and buildings at 31 December 2016 comprised:

Freehold	
Long leasehold	

The cost of depreciable assets included in land and buildings at 31 December 2016 was £

~~included in the total net book value of tangible fixed assets held at 31 December 2016 was £ _____ in respect of assets held under finance leases and hire purchase contracts.~~

What is capitalised within cost, and depreciation policies and useful lives are unlikely to be significantly different from those under FRS 15 or FRSE. The revisiting of residual values may have an effect. There is a transitional exemption under which the cost of dismantling an asset or restoring the site required to be included within cost may be measured at the date of transition, rather than at the date the asset was acquired.

Where the revaluation model is used under FRS 102, the only requirement is to keep the valuations sufficiently up to date such that the carrying value is not materially different from fair value. There is no requirement for independent or qualified valuers. Whether FRS 102 is more or less onerous than FRS 15, which required a full valuation every 5 years and an interim valuation at the end of year, will depend on the rate at which asset valuations are changing.

Residual value is assessed at the end of each reporting period. Under FRSE this was initially assessed and not revised.

Under Section 27, an impairment review is only required when there is an indicator of impairment. Under FRS 11 an impairment review was required where no depreciation was charged on the grounds that it would be immaterial or where the life of a tangible asset was > 50 years. The treatment under section 27 is the same as under FRS 11 i.e. compare the carrying amount with the recoverable amount, which is defined as the higher of value in use and fair value less costs to sell.

FRS 102 also includes disclosure requirements for the following, which are already required for companies under CA 2006, and which are mandatory notes under the new Directive:

- *The existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities; and*
- *The amount of contractual commitments for the acquisition of property, plant and equipment.*

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

9 INVESTMENT PROPERTY

					Total £
Market Fair value at 1 January 2016					
Additions					
Disposals					
Net gains or losses from fair value adjustments					
Transfers to and from property, plant and equipment					
Market Fair value at 31 December 2016					

Transfers when fair value can no longer be measured at fair value without undue cost or effort. Where relevant, separate lines would be required for transfers in and out.

Investment property is not one of the format headings and could be included within tangible fixed assets or under investments or, as here, as a separate heading.

The key changes in the treatment of investment properties are covered in the accounting policy note above.

There is no requirement for a qualified or independent valuer.

10 INVESTMENTS HELD AS FIXED ASSETS FINANCIAL ASSETS

It is acceptable to retain the format heading of investments. However FRS 102 sections 11 and 12 refer to financial assets and make no distinction between those held as fixed assets and those held as current assets.

Where this caption includes investments in subsidiaries, associates or joint venture it may be appropriate to retain the heading investments held as fixed assets.

	Other investments other than loans £	Other investments £	Total £
Cost or Valuation at 1 January 2016			
Additions			
Fair value adjustments			
Disposals			
Cost or Valuation at 31 December 2016			

FRS 102 will change the default position for many of these investments such that they should be included at fair value i.e. listed investments and others which can be measured reliably. Under current UK GAAP, many of these will be carried at cost less impairment.

At the end of the year/period the market value of listed investments was £ (2014 - £)

The revisions to the Regulations remove all disclosure requirements in relation to related undertakings including subsidiaries as it deletes Schedule 2.

11 STOCKS (AND WORK IN PROGRESS) INVENTORIES

	2016 £	2015 £
Stocks		
Payments on account		

These format headings are alphabetic designation and are not required to be disclosed by small companies preparing abridged accounts.

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Notes to the financial statements for the year ended 31 December 2016

FRS 102 requires disclosure of the amount of inventories recognised as an expense in the period (FRS 13.22). This is not required under FRS 102 Section 1A.

Inventories are subject to impairment review under Section 27 on an annual basis. This is likely to give the same results as the current recognition of provisions for slow moving and obsolete stock. However, FRS 102 13.22 requires disclosure of impairment losses recognised or reversed during the year, which was not required by SSAP 9.

FRS 102 permits the capitalisation of borrowing costs in inventories. **Capitalisation is not permitted under FRS 105.**

If such a policy is adopted the following disclosures are required:

- (a) Details of the accounting policy;
- (b) The fact that the transitional exemption under 35.10 (a) has been used, where relevant. This permits the capitalisation to commence from the date of transition, rather than from the date the borrowing cost was incurred;
- (c) The amount of borrowing costs capitalised in the period; and
- (d) The capitalisation rate used.

16 DEBTORS

	2016	2015
Trade debtors		
Amounts owed by group undertakings and undertakings in which the company has a participating interest		
Other debtors		

These format headings are alphabetic designation and are not required to be disclosed by small companies preparing abridged accounts.

Staff Education Note 3 gives some guidance on impairment of trade debtors. FRS 102 requires debtors to be included at amortised cost. In practice this is likely to produce the same results as the current provision for bad and doubtful debts. However FRS 102 is more prescriptive in requiring objective evidence of impairment.

Particular care is required when recording sales and trade debtors where sales include a financing element.

17 INVESTMENTS HELD AS CURRENT ASSETS FINANCIAL ASSETS

	2016	2015
At cost or fair value		
Shares in group undertakings		
Other investments		
The market value of the listed investments		

FRS 102 will change the default position for many of these investments such that they should be included at fair value i.e. listed investments and others which can be measured reliably. Under current UK GAAP, many of these will be carried at cost less impairment.

18 CREDITORS - AMOUNTS FALLING DUE

	2016 £	2015 £
Bank loans and overdrafts		
Trade creditors		
Amounts owed to group undertakings and undertakings in which the company has a participating interest		
Other creditors		
Corporation tax		
Other tax and social security		

These format headings are alphabetic designation and are not required to be disclosed in abridged accounts of small companies.

The bank overdraft/loan/debenture is secured by

Smallco Limited
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The big change in the creditors will be the inclusion of financial liabilities recognised under Section 11 and 12 which are not currently recognised. They can be included within other creditors.

19 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £	2015 £
Bank loans and overdrafts		
Trade creditors		
Amounts owed to group undertakings and undertakings in which the company has a participating interest		
Other creditors		
Corporation tax		

These format headings are alphabetic designation and are not required to be disclosed in abridged accounts of small companies.

20 BORROWINGS

Paragraph 55(1) requires disclosure for the aggregate of all items shown under creditors of the aggregate of amounts which fall due for payment or repayment after the end of the period of five years beginning with the day next following the end of the financial year differentiating between:

- (a) The amount of any debts payable other than by instalments due after that date, and*
- (b) The amount of instalments due after that date in relation to debts payable by instalments.*

	2016 £	2015 £
Analysis of creditors falling due after more than five years:		
Aggregate of non-instalment debts that fall due for repayment after five years:		
Bank loans		
Debentures, loan stock and other loans		
Finance leases and hire purchase contracts		
Aggregate of instalments which fall due for payment after five years:		
Bank loans		
Debentures, loan stock and other loans		
Finance leases and hire purchase contracts		
The payment terms and interest rate of each creditor for which an amount fall due after five years are as follows:		

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Notes to the financial statements for the year ended 31 December 2016

21 PROVISIONS FOR LIABILITIES

There is no requirement within the Regulations for a small company to analyse provisions. The two columns shown here are those commonly used. Nor is there a requirement to disclose movements within provisions.

The analysis of the deferred tax provision previously required by FRSSE has not been retained within FRS 102 Section 1A as it is not one of the mandatory notes.

	Deferred taxation £	Other provisions £	Total £
Balance at 1 January 2016			
Utilised during the year/period			
Charge for the year/period			
Change in discount rate			
Balance at 31 December 2016			

*FRS 102 prohibits discounting of deferred tax, previously permitted under FRS 19 but requires it for other provisions under Section 21: Provisions and contingencies. **FRS 105 prohibits the inclusion of deferred tax.***

	2016 £	2015 £
Deferred tax:		
Accelerated capital allowances		
Tax losses carried forward		
Undiscounted provision for deferred tax		
Discount		
Discounted provision for deferred tax		

The following notes have effectively been replaced under FRS 102 by the Statement of changes in equity or because the notes are no longer required under the regulations.

22 SHARE CAPITAL

	2016 £	2015 £
Allotted called up and fully paid		
(Number) — Ordinary shares of _____ each		
(Number) — Cumulative / Non-cumulative /		
Redeemable / Coupon Preference		
Shares* of _____ each		

On 20 _____ shares which had an aggregate nominal value of £ _____ were allotted for an aggregate consideration of £ _____.

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The _____ redeemable preference shares are redeemable on
 20 _____ at the option of the company between _____ 20 _____ and
 20 _____. No premium is payable on redemption. /A premium of £ _____ per share is payable on redemption.

Redeemable shares should be, and other preference shares may need to be, classified as creditors. Where this is the case, this disclosure could be included in the creditors' notes above. It is unlikely that the treatment of such shares will change under FRS 102.

23 SHARE PREMIUM ACCOUNT

	2016 £	2015 £
At _____	20	
_____	20	
On issue of shares during the year		
Expenses of issue		
At _____	20	
_____	20	

24 REVALUATION RESERVE

	2015 £	2014 £
At _____	20	
_____	20	
Arising on revaluation during the year		
Amortisation during the year		
At _____	20	
_____	20	

25 PROFIT AND LOSS ACCOUNT

	2016 £	2015 £
At _____	20	
Profit for the financial year / period		
Dividends		
At _____	20	

The reconciliation of shareholders' funds has been replaced by the Statement of changes in equity which must appear as a primary statement and not in the notes. (See above)

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Notes to the financial statements for the year ended 31 December 2016

26 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2016 £	2015 £
Profit (loss) for the financial year		
Dividends		
Other recognised gains and losses relating to the year (net)		
New share capital subscribed		
Goodwill written off		
Net addition to shareholders' funds		
Opening shareholders' funds		
Closing shareholders' funds		

27 ADVANCES TO DIRECTORS

During the period a director, Mr H Potter received an interest free loan of £25,000 to enable him to carry out his duties. The amount outstanding at the year-end was £25,000 (2015 – Nil).

The requirements in relation to the disclosure of directors' benefits in the form of advances, credits and guarantees included in S 413 of CA 2006 have been retained.

28 RELATED PARTY TRANSACTIONS

During the year the company made sales of £25,000 to Potter Ltd, a company controlled by H Potter a shareholder (2015 – £20,000). At the end of the year £25,000 was outstanding (2015 – £15,000). The company paid a dividend of £30,000 to Mr Potter a director and £5,000 to Mrs Potter, his wife, a shareholder.

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The definition of a related party in FRS 102 is that used in FRS 8 and IAS 24. However the definition in FRS 102 follows paragraph 66 of Schedule 1 to the Regulations which are less stringent than under FRSE or FRS 102. They state:

“Particulars may be given of transactions which the company has entered into with related parties and must be given if such transactions are material and have not been concluded under normal market conditions with:

- (a) Owners holding a participating interest;*
- (b) Companies in which the company has a participating interest; and*
- (c) The company’s directors.*

Note that there is no requirement for disclosures of transactions with a directors close family as there would be under FRSE or full FRS 102 (hence the deletion of the information relating to the dividend payable to Mrs Potter – she is not caught as an owner holding a participating interest).

Similarly there is no requirement for disclosure of transactions between companies under common control which would have been disclosable under FRSE. Therefore the information about transactions and balances with Potter Ltd have been deleted.

There is no specific requirement to name the director or other related party. The requirements are to disclose:

- (a) The amount of the transactions,*
- (b) The nature of the related party relationship, and*
- (c) Other information necessary for an understanding of the financial position of the small entity.*

Information about individual transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position.

Disclosures 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.

29 CONTROLLING PARTY

~~The directors consider that Mr H Potter is the controlling party.~~

FRS 102 requires the disclosure of the name of an entity’s ‘parent, and if different, its ultimate controlling party’.

However, the regulations, and therefore Section 1A, only require disclosure of information where the company is a subsidiary. The following information is required:

- (a) the name of the parent undertaking;*
- (b) the address of the parent’s registered office (whether in or outside the UK); and*
- (c) if it is incorporated, the address of its principal place of business.*

30 POST BALANCE SHEET EVENT(S)

The definition and treatment of adjusting and non-adjusting post balance sheet events under FRS 102 is identical to that under FRS 21.

This is also one of the disclosure requirements under the regulations.

31 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The company had total guarantees and commitments at the balance sheet date of £ (2015 - £)

Note that the wording of the disclosures under guarantees and financial commitments required by S 57.1 of the revised regulations is different from the previous wording but the disclosures are likely to be similar in practice.

The requirement is to disclose:

- (a) *the total amount of any commitments, guarantees and contingencies that are not included on the balance sheet, with separate disclosure of the total amount of any commitments within this amount which;*
 - (i) *Concern pensions; or*
 - (ii) *Are undertaken for the benefit of*
 - i.any parent undertaking, fellow subsidiary or subsidiary or*
 - ii.any undertaking in which the entity has a participating interest*
 - iii.As well as separate disclosure of each*
- (b) *an indication of the nature and form of any valuable security given by the company in respect of those commitments, guarantees and contingencies.*

Note that it is only the total amount of the commitments, guarantees and contingencies required to be disclosed, and there is no requirement to disclose the nature of the commitments.

Example

The company has future operating lease commitments of £10,000 and capital commitments of £30,000. It has also guaranteed the overdraft of £25,000 for a subsidiary company and there is an unrecognised contingent liability of £40,000.

The disclosures are therefore

Total amount of commitments guarantees and contingencies is £105,000.

The required disclosure in respect of parent, fellow subsidiary and subsidiary required by S 57(3) and FRS 105 6A.2 relates only to commitments. Therefore the overdraft guarantee does not require separate disclosure under this heading.

31 CAPITAL COMMITMENTS

~~Contracts for capital expenditure not provided for~~

FRS 102 includes a requirement for disclosure of the amount of contractual commitments for the acquisition of property, plant and equipment. Previously this was only a requirements under the Companies Act.

As indicated above, capital commitments are likely to be included within total commitments under Section1A and not disclosed separately.

32 LEASING COMMITMENTS

The company had annual total commitments under non-cancellable operating leases as detailed below:

	20		20
	Land and Buildings	Other	Land and Buildings
	£	£	£
Operating leases which expire:			
Within one year			
Within two to five years			
After more than five years			

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*FRS 102 does not include the distinction between leases of land and buildings and other required by SSAP 21. A total will suffice for each time period. It does however require disclosure of **total** commitments (see FRS 102). This figure will therefore change more frequently (annually?) than under SSAP 21!*

*The small company regulations do include disclosure of the **total** commitments, not the **annual** commitments, but as indicated above only in aggregate and with no requirement to disclose of the time period in which they are payable.*

33 — CONTINGENT LIABILITIES / ASSETS

The definitions and disclosures relating to contingent assets and liabilities under Section 22 of FRS 102 mirror those of FRSE and are unlikely to change on transition.

However, the Regulations and Section 1 permit the inclusion of contingent liabilities not included within the accounts, to be included in the aggregate commitments and contingencies as outlined in note 31 above.

34 — PENSION COSTS

~~The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £ (20 - £). Contributions totalling £ (20 - £) were payable to the fund at the year-end and are included in creditors.~~

There are unlikely to be any changes in accounting treatment or disclosure of defined contribution pension schemes.

There are big differences for defined benefit schemes, with particular changes for multi-employer schemes including group schemes.

Note that there are no disclosures in relation to the pension scheme costs for the year but there are in relation to commitments to pay pension costs at the balance sheet date (see note 31 above).

35 AVERAGE NUMBER OF EMPLOYEES

During the year the average number of employees was X (2X13 – X).

This is a new note required by the regulations. The number of employees relates to people and not full-time equivalents. Therefore 20 part-time employees is 20 employees. The average number for the year is found by adding the average number per month and dividing by twelve!

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EXPLANATION OF TRANSITION

<p><i>FRS 102 Section 1A encourages the inclusion of an explanation of transition as required by FRS 102. This would include:</i></p> <p>(a) <i>A description of the nature of each change in accounting policy;</i></p> <p>(b) <i>Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with FRS 102 for both the date of transition and the most recent statement of financial position;</i></p> <p>(c) <i>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 financial statements to its profit or loss.</i></p>
<p><i>FRS 102 does not give any guidance on the form of the reconciliations required in relation to the reconciliations of equity or profit or loss, or of the explanation of the effects of transition. The following illustrations are based on those included in Staff Education Note 13: Transition to FRS 102. The illustrations in Staff Education Note 13 include monetary amounts which are gross i.e. before taxation. No change in shown in the taxation figure in the illustration. In practice these changes may well be taxable or tax allowable. It may therefore be appropriate to note the tax effects of the changes in the explanation of transition.</i></p>
<p><i>Staff Education Note 13 gives 2 options for the reconciliations and both are illustrated here.</i></p>

35 RECONCILIATION OF EQUITY

Option 1

		At 1 January 2015			At 31 December 2015		
	Note	As previously stated	Effect of transition	FRS 102 (as restated)	As previously stated	Effect of transition	FRS 102 (as restated)
Fixed assets							
Current assets							
Creditors: amounts falling due within one year							
Net current assets							
Total assets less current liabilities							
Creditors: amounts falling due after more than one year							
Provisions for liabilities							
Net assets							
Capital and reserves							

Option 2

	Note	1 January 2016	31 December 2016
Capital and reserves (as previously stated)			
Recognition of derivative financial instruments			
Short term compensated absences			
Capital and reserves as restated			

Smallco Limited
Notes to the financial statements for the year ended 31 December 2016

36 RECONCILIATION OF PROFIT AND LOSS

Option 1

	Notes	As previously stated	Effect of transition	Year ended 31 December 2015 FRS 102 (as restated)
Turnover				
Cost of sales				
Gross profit				
Administrative expenses				
Other operating income				
Operating profit				
Interest receivable and similar income				
Interest payable and similar charges				
Profit before taxation				
Taxation				
Profit on ordinary activities after taxation and for the financial year				

Option 2

	Note	Year ended 31 December 2015
Profit for the year (as previously stated)		
Recognition of derivative financial instruments		
Re-measurement of stock using spot exchange rate		
Short term compensated absences		
Profit for the year as restated		

37 NOTES TO RECONCILIATIONS

Financial instruments

Smallco Ltd was not previously required to recognise derivative financial instruments on the balance sheet. Instead the effects of the derivative financial instruments were recognised in profit or loss on settlement.

Under FRS 102, derivative financial instruments are classified as other financial instruments and are recognised as a financial asset or a financial liability, at fair value, when an entity becomes party to the contractual provisions of the instrument.

On the adoption of the requirements of FRS 102, financial assets of £Y and financial liabilities of £Y have been recognised on the balance sheet at the date of transition, 1 January 2015.

At 31 December 2015, the fair values of the financial assets and financial liabilities were £Y and £Y respectively.

In accordance with the accounting policy in 1 above the difference between the fair values of £Y-£X has been recognised in profit and loss for the year.

Short-term compensated absences

Prior to the adoption of FRS 102, Transition Ltd did not make provision for holiday pay earned but not taken before the year end. FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement.

Consequently an additional accrual of £A at 1 January 2015 has been made to reflect this. The provision at 31 December 2015 had increased to £B and the increase in provision of £B- £A has been charged to profit and loss in the year ended 31 December 2015.

Lease incentives

Prior to the adoption of FRS 102, Transition Ltd had recognised the benefit of lease incentives over the shorter of the life of the lease of the period to the date of the next rent review at which rent is expected to be reset to a market rate.

FRS 102 requires such incentives to be recognised over the life of the lease but includes an exemption which allows an entity to continue with that policy for leases entered into before the date of transition. Transition Ltd has taken advantage of the exemption and accordingly there is no adjustment to the balance sheet at 1 January 2015.

Lease incentives obtained in 2015 have been restated in accordance with FRS 102 resulting in an increase in lease expenses charged and a reduction in deferred income of £M.

Smallco Limited
Cash flow statement for the year ended 31 December 2016

<u>A small company is not required to include a cash flow statement</u>	Note	2016 £	2015 £
<p>Reconciliation of operating profit to net cash inflow from operating activities</p> <p>Operating profit</p> <p>Depreciation charges</p> <p>Increase in stocks</p> <p>Increase in debtors</p> <p>Increase in creditors</p>			
<p><i>The easiest way to show the revisions to the cash flow statement is to produce a separate statement under FRS 1 on this page and one under FRS 102 on the adjacent page.</i></p> <p><i>Note also that the notes to the Cashflow statement required by FRS 1 and included here at notes 35 and 36 are not required by FRS 102.</i></p>			
Net cash inflow from operating activities			

CASH FLOW STATEMENT

Net cash inflow from operating activities	30		
Returns on investments and servicing of finance			
Taxation			
Capital expenditure	30		
Equity dividends paid			
Net cash inflow before use of liquid resources and financing			
Management of liquid resources	30		
Financing	30		
Increase in cash			

FRS 1 requires a reconciliation of net cash flow to movement in net debt. This may be given, as here adjacent to the cash flow statement or in the notes.

FRS 102 does not require a reconciliation of cash to net debt. Indeed net debt is not considered in FRS 102. However in Staff Education Note 1 it was noted that a project undertaken by the Financial Reporting Lab of the FRC found that a majority of investors use a net debt reconciliation or reconciliation of net cash flows to net debt when one is presented. The Lab encouraged companies to consider how this might be relevant to their own circumstances and to so enhance their reporting to meet investor needs.

	2016	2015
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period		
Cash repaying debenture		
Cash paid to increase liquid resources		
Change in net debt		
Net debt at _____ 20		
Net debt at _____ 20		

Smallco Limited
Cash flow statement for the year ended 31 December 2016

Cash flows from operating activities
Profit for the financial year
Adjustments for:

This example cash flow statements is based on the illustrative example in Staff Education Note 1 using the indirect method.

Note it starts with profit for the year which is defined as “the total of the income less expenses, excluding the components of other comprehensive income” and not operating profit. Hence there are more adjustments than under FRS 1.

Depreciation of property plant and equipment
Amortisation of intangible assets
Profit on disposal of property, plant and equipment
Interest paid
Taxation

Note the treatment of the three highlighted items interest paid, interest received and taxation.

- (a) *FRS 102 gives a choice for interest paid or received to be included in cash from operations or in financing and investing respectively. In this example we have include interest paid in operations and interest received in investing.*
- (b) *Taxation has to be allocated to the relevant headings, although FRS 102 indicates that it will primarily be related to operations.*
- (c) *The illustration assumes that the profit and loss charge and cash payments are the same and therefore no adjustment is required for non-cash movements*
- (d) *The illustration differentiates between cash from operations and +net cash generated from operating activities for comparison with FRS 1.*

Decrease (increase) in trade receivables
Decrease (increase) in inventories
Increase (decrease) in trade payables
Cash from operations
Interest paid
Income taxes paid
Net cash generated from operating activities

Cash flows from investing activities
Proceeds from sale of equipment
Purchases of property, plant and equipment
Purchase of intangible assets
Interest received
Net cash from investing activities

Cash flows from financing activities
Issue of ordinary share capital
Repayment of borrowings
Dividends paid
Net cash used in financing activities

Overdrafts may be included within cash and cash equivalents where they are repayable on demand and play an integral part of the entity's cash managements (FRS 102 7.2)

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the year

Cash and cash equivalents at the end of the year

Components of cash and cash equivalents
Cash
Overdraft
Cash equivalents

This is the only note to the cash flow statement required by FRS 102 Section 7 and could appear elsewhere. If cash is held by the entity but is not available for use that should also be disclosed.

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant credit risk.