

Accountancy & Financial Reporting 2008

July 2008

Newsletter

PDF printer
friendly version

Welcome to the *Accountancy & Financial Reporting 2008* newsletter, highlighting important recent developments. You can also access comprehensive updates to specific paragraphs via our online updating service. We always welcome suggestions from readers, so please contact us if you have any comments.

In this issue...

- » FRSSE for 2008
- » Combined Code 2008
- » Financial Reporting Standards
- » Off-balance sheet arrangements
- » Limited Liability Partnerships
- » Charities: Audit thresholds
- » Charities: CIOs
- » Small companies' audit exemption: A clarification

Disclaimer

This newsletter is provided on the understanding that the information contained within it is for guidance only, and that the publisher is not in business to provide legal or accounting advice or other professional services. Readers entering into transactions on the basis of, or otherwise relying on, such information should seek the services of a competent professional adviser.

Whilst every care has been taken to ensure the accuracy of the contents, the editors and the publishers cannot accept responsibility for any loss occasioned to any person acting or refraining to act as a result of any statement in this newsletter.

FRSSE 2008



NEW FRSSE FOR 2008

¶6000

The Accounting Standards Board (ASB) issued an updated version of the Financial Reporting Standard for Smaller Entities (FRSSE) to reflect changes in company law arising from the Companies Act 2006. There are no changes to the requirements that are based on Generally Accepted Accounting Practice.

The main substantive differences between the new FRSSE and the previous one are as follows:

1. Increased thresholds for companies and groups to qualify as small:

	Years beginning on/after 6 April 2008	Previously
Turnover	£ 6,500,000	£ 5,600,000
Balance sheet total (Gross assets)	£ 3,260,000	£ 2,800,000
Average number of employees	50	50

2. Revised scope to reflect amended eligibility criteria to use the FRSSE (limiting the scope for small investment firms and entities such as e-money issuers);
3. A new requirement to disclose details of any liability limitation agreement (where the accounts are subject to audit);
4. The disclosure of authorised share capital is no longer a requirement;
5. Changes in terminology – “Loans, quasi-loans, credit transactions and guarantees” are now referred to as “Advances, credit and guarantees”;
6. A new requirement for separate disclosure of political donations and expenditure and charitable donations. The threshold for reporting these donations in the directors’ report has increased to £2,000; and
7. A new requirement for disclosures in the directors’ report regarding independent election candidates.

The updated FRSSE applies to accounting periods beginning on or after 6 April 2008, the date from which the accounting and reporting regime for smaller companies in the 2006 Act becomes effective. Early adoption is not permitted; smaller companies should therefore continue to use the FRSSE (effective January 2007) for earlier accounting periods.

COMBINED CODE

COMBINED CODE 2008

¶5200

The Combined Code was first issued in 1998 and has been updated at regular intervals since then. Two versions are in effect: the 2006 edition, which applies to accounting periods beginning on or after 1 November 2006, and the June 2008 edition, which applies to accounting periods beginning on or after 29 June 2008.

The June 2008 edition incorporates the following changes made after a review held during 2007:

- » remove the restriction on an individual's chairing more than one FTSE 100 company; and
- » for listed companies outside the FTSE 350, allow the company chairman to sit on the audit committee where he or she was considered independent on appointment.

The June 2008 edition of the Code took effect at the same time as new FSA Corporate Governance Rules implementing EU requirements relating to corporate governance statements and audit committees.



PDF printer
friendly version

FINANCIAL REPORTING STANDARDS



PROPOSED IMPROVEMENTS TO FINANCIAL REPORTING STANDARDS

The Accounting Standards Board has issued a Financial Reporting Exposure Draft (FRED) of improvements to Financial Reporting Standards.

The proposed amendments are a response to the process of annual improvements by the International Accounting Standards Board's (IASB). In May 2008 the IASB issued an International Financial Reporting Standard, *Improvements to IFRSs*, which made amendments to a number of International Financial Reporting Standards.

The FRED was therefore issued to maintain the existing levels of convergence between Financial Reporting Standards in the UK and International Financial Reporting Standards.

In addition, the ASB has taken this opportunity to:

- » propose improvements to UK FRS that have been brought to its attention;
- » update UK IFRS-based FRS where the equivalent IFRS has been amended or updated; and
- » revise UK FRS editorially.

The ASB has invited comments on its proposals by 27 September 2008.

OFF-BALANCE SHEET ARRANGEMENTS



DISCLOSURE OF OFF-BALANCE SHEET ARRANGEMENTS

The Accounting Standards Board's Urgent Issues Task Force (UITF) was asked to review the legal definition of an off-balance sheet arrangement and in response has issued a press notice (ASB PN 328) on this topic. This review was sparked by a new disclosure requirement set out in section 410A of the Companies Act 2006, which applies to large and medium-sized companies that prepare accounts in accordance with either the Act and UK Financial Reporting Standards, or International Financial Reporting Standards (IFRS), as recognised by the European Union (EU).

Off-balance sheet financing covers transactions or arrangements with other entities that are not included in the balance sheet.

Some disclosures regarding off-balance sheet financing arrangements are already required under SSAP 21 "Accounting for leases and hire purchase contracts" and FRS 5 "Reporting the substance of transactions".

The problem is, however, that the Companies Act 2006 does not give a precise definition for an off-balance sheet arrangement and many companies are not sure of the adequacy of their disclosures in terms of complying with the Act.

The Department for Business, Enterprise and Regulatory Reform (BERR) has issued guidance on the accounting and reporting provisions of the Companies Act 2006, based on EU Directive 2006/46/EC and includes the following types of risk and benefit sharing arrangements or obligations arising from:

- » debt factoring;
- » combined sale and repurchase agreements;
- » consignment stock arrangements;
- » securitisation organised through separate companies or unincorporated entities;
- » pledged assets;
- » operating lease arrangements; and
- » outsourcing.

In addition, the UITF offers additional guidance to companies when considering the disclosure requirements for off balance sheet arrangements in accordance with section 410A; namely:

- » only material off balance arrangements in force at the balance sheet date need be considered; and
- » details of the risks and benefits of material off balance sheet arrangements should be given in the notes to the accounts.

PARTNERSHIPS

LIMITED LIABILITY PARTNERSHIPS

¶7632

The Government has recently made public its response to the consultation paper issued in November 2007, regarding the application of specific provisions within the Companies Act (CA) 2006 to limited liability partnerships (LLPs).

The Government plans to apply the provisions of CA 2006 to LLPs where they correspond to relevant provisions contained in the CA 1985. The new provisions will come into effect for accounting periods beginning on 1 October 2009, with the following exceptions:

- » provisions relating to the accounts and audit of LLPs should be applied to financial years beginning on or after 1 October 2008; and
 - » the new code of directors' duties will not apply to members of LLPs.
-



CHARITIES

AUDIT THRESHOLDS FOR CHARITIES

¶9744

The audit procedures for registered charities in the UK are currently covered by the auditing standards and Practice Note 11 "The Audit of Charities in the UK". The Practice Note is currently being revised to reflect developments in auditing standards both in the UK and internationally and for changes in company legislation, incorporated in the Companies Act 2006.

At present, the mixture of new company and charity legislation throughout the different territories of the United Kingdom is complicated. Under Scottish legislation all large Scottish charities must be audited, irrespective of whether they are companies or not. For dual registered charities the situation is even more complex. For instance a charity registered in England and Wales with significant activities in Scotland, will also need to report under Scottish legislation. In addition, a Charity Commission is also planned for Northern Ireland.

Other changes expected to impact on the auditing requirements for charities in the coming year are:

- » modifications to FRED 40 "Accounting for Heritage Assets resulting from the publication of FRED 42 "Heritage Assets", and in particular market valuations for specialist assets (e.g. lifeboats, churches, museum collections);
- » new types of legal entity such as the charitable incorporated organisation (COI);
- » revisions to the Charity SORP; and
- » additional compliance requirements issued by the Charity Commission.



CHARITIES



CHARITABLE INCORPORATED ORGANISATIONS (CIOs)

¶9743-3

Charities opting for a corporate structure must register with the Charity Commission and the Registrar of Companies, as well as submit annual accounts to both bodies. The problem is that the framework of company law was designed primarily for commercial entities and as such may not always be suitable for charities. To address this problem, a new legal form of incorporation designed specifically for charitable organisations, was sanctioned under the Charities Act 2006. The Charitable Incorporated Organisation (CIO) offers the advantages of a corporate structure and reduced risk of personal liability for trustees without the burden of dual regulation.

Advantages of registering as a CIO over a company structure

- » Single registration. A CIO will have to register only with the Charity Commission;
- » Less onerous requirements for preparing accounts. Small CIOs can prepare receipts and payments accounts and larger charities accruals accounts;
- » CIOs are required to prepare an annual report only, and not a directors' report;
- » One annual return. Charitable companies are currently required to prepare annual returns under company law and charity law;
- » Less onerous filing requirements. CIOs will only have to submit accounts, reports and returns to the Commission and not the Registrar of Companies;
- » Reduced compliance costs for charities as the Commission does not levy charges for registration or filing of information;
- » Simpler procedures for mergers and reconstructions. The Charities Act 2006 contains a number of provisions designed to facilitate mergers and reconstructions, which are not available to charitable companies;
- » EC company law directives do not apply to CIOs.

When can charities register as CIOs?

Although the Charities Act 2006 contains the proposed legal framework for CIOs, more detail will be included in secondary legislation in the form of Regulations, made by the Minister for the Third Sector. These Regulations will stipulate how CIOs can be established and how they should operate.

The first stage in the process, planned for this summer, should see the Office of the Third Sector issue Draft CIO Regulations for consultation. Detailed guidance on how to set up a CIO and the process by which a charitable company, charitable industrial and provident society, or unincorporated association, can convert to a CIO will also be published.

In effect the new CIO will not be a new corporate body to which the undertaking of the company or industrial and provident society is transferred. The existing corporate body is simply re-registered as a CIO and as such the conversion process does not affect the legal personality of the organisation or its business relationships.

SMALL COMPANIES

EXEMPTION FROM AUDIT – A CLARIFICATION

¶6070

Because of an editing error, the following clarification is required to the text in ¶6070 of the book:

Small companies can elect not to have their accounts audited if they meet **the first** two of the following three conditions:

- » annual turnover does not exceed £5.6 million (for periods beginning on/after 6 April 2008 — £6.5 million)
- » balance sheet total does not exceed £2.8 million (for periods beginning on/after 6 April 2008 — £3.26 million)
- » no more than 50 employees (on average).

Note that to be considered “small” the company will have met **any two** of the above conditions, but the audit exemption applies to such companies only if the **first two** conditions are satisfied.

