FINANCIAL REPORTING

REDUCING THE BURDEN FOR SMALL COMPANIES

In February 2009 the European Commission (EC) issued proposals to exempt 'micro-entities' from the scope of the EU accounting directives as part of the drive to reduce administrative burdens by 25% by 2012. Company law, accounting and auditing have been identified as priority areas in this exercise.

Currently EU directives set out a common set of principles and requirements for accounting. In the UK these are implemented through the companies acts.

The proposed exemptions would be at the option of member states, and those that take the option will be able to create from first principles the most appropriate regime for the 'micros', defined as those which meet two out of the three criteria:

- less than 10 employees
- total assets below 500,000 euros
- turnover below 1 million euros.

The UK has been among the member states supporting the EU simplification proposals. The tentative ICAEW view is that this proposal could bring long term benefits to business, and encourage debate about the creation of a revised financial reporting regime tailored to the needs of the smallest businesses. If the proposal becomes European law, we would expect a UK consultation in 2009 on the future financial reporting regime for micros.

The UK Accounting Standards Board (ASB) is expected to conduct its own parallel consultation on the future of UK GAAP, including the reporting requirements for smaller entities, once the International Accounting Standards Board (IASB) publishes a simplified version of International Financial Reporting Standards (IFRS), *IFRS for non-publicly accountable entities*.

Read the Questions and Answers on the micros proposal prepared by the Financial Reporting Faculty at www.icaew.com/index.cfm/route/163937. Send your comments to frfac@icaew.com.

FRC UPDATE ON GOING CONCERN

Small companies are required to produce a full set of financial statements for which they may use the Financial Reporting Standard for Smaller Entities (FRSSE). The FRSSE requires the directors to assess whether the use of the going concern basis of accounting is appropriate and to make disclosures of any material uncertainties. Small companies may opt out of an audit and/or file abbreviated accounts. However, full accounts may still be given to customers, banks and others. The Financial Reporting Council (FRC) *Update for directors of listed companies: going concern and liquidity risk* published November 2008 might also be helpful to directors of smaller companies, particularly those that use UK GAAP rather than the FRSSE. For more, see www.icaew.com/index.cfm/route/164177.

DISCLOSURE

The amendments to IFRS 7 *Financial Instruments: Disclosures* were made in response to the financial crisis. They will provide enhanced disclosure about fair value measurements and reinforce existing principles for disclosures about liquidity risk. The amendment is mandatory for accounting periods beginning on or after 1 January 2009. For more, see www.icaew.com/index.cfm/route/164227.

STANDARDS COMING INTO EFFECT

Recent developments in all areas of accounting and corporate reporting, including standards coming into effect, can be found on the Financial Reporting Faculty website at www.icaew.com/frf. This includes technical information on the areas of IFRS, UK GAAP, narrative reporting and UK regulation.

UPDATE

By **Marianne Mau**, financial reporting manager at the ICAEW (marianne.mau@icaew.com) and other sources.

ETHICAL STANDARDS

The Auditing Practices Board (APB) updated its ethical standards for auditors in 2008 and identified a small number of issues where further work was needed. As a result, APB is now consulting on further proposed amendments to its standards on topics that include:

- the rotation period for audit engagement partners on listed company audits;
- remuneration and evaluation policies for key partners involved in the audits; and
- the provision of direct assistance to the audit team by internal auditors.

IASB CLARIFICATIONS

The IASB has clarified the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment issued by the IASB in October 2008. The amendment allows entities to reclassify particular financial instruments out of the 'at fair value through profit or loss' category in specific circumstances. The amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* issued March 2009 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. ■