



THE POWER OF BEING UNDERSTOOD

Company Law changes – amendments to FRS 102 for small entities

From periods starting on or after 1 January 2016, to align with the revisions in Company Law, FRS 102 is amended to:

- prohibit the reversal of past impairment losses for goodwill;
- restrict the useful economic life of intangible assets (including goodwill) to not more than ten years in the exceptional circumstances when the useful economic life cannot be reliably estimated;
- require some minimum disclosures about provisions and contingencies, partially removing the 'seriously prejudicial' exemption; and
- reflect other minor amendments.

SECTION	TOPIC	SUMMARY OF AMENDMENT
1	Reduced disclosures	Restriction to the disclosure exemptions available in relation to financial instruments measured at fair value where disclosure is required for compliance with Company Law.
1A	Small entities	Provisions available to small companies (as defined in FRS 102 Appendix IV) that choose to apply the small entities regime. Additional transitional exemptions for periods commencing before 1 January 2017 set out in section 35 from restating the comparatives in respect of equity settled share based payments, fair value measurement of financial instruments and financing transactions involving related parties.
3	Financial performance	Reference to true and fair view rather than fair presentation.
4	Financial position	The IFRS balance sheet format may be adopted provided certain line items as set out in Section 4 are presented. The descriptions and ordering of those line items may be amended providing the information given is at least equivalent to that required by the balance sheet format had it not been adapted. Where this option is taken current assets and liabilities are presented separately from non-current assets and non-current liabilities as defined by the glossary.
5	Statement of comprehensive income and income statement	Presentation consistent with IFRS may be adopted provided certain line items set out in Section 5 are given. The descriptions and ordering of those line items may be amended providing the information given is at least equivalent to that required by the profit and loss account format had it not been adapted.
7	Statement of cash flows	Small entities are not required to present a statement of cash flows.
8	Notes to the financial statements	Explanatory note highlighting that the 2015 Regulations require the notes to be presented in the order in which, where relevant, the items to which they relate are presented in the statement of financial position and in the income statement.

SECTION	TOPIC	SUMMARY OF AMENDMENT
9	Consolidated and separate financial statements	<p>Incorporates the amended legal criteria to apply when determining whether a parent is exempt from preparing consolidated accounts. References to majority owned subsidiaries are replaced by:</p> <ul style="list-style-type: none"> • immediate parent companies that hold 90 per cent or more of the allotted shares and the remaining shareholders have approved the exemption; and • immediate parent companies that have more than 50 per cent but less than 90 per cent of the allotted shares and notice requesting the preparation of consolidated financial statements has not been served. <p>Requires all the conditions set out in Company Law to be complied with for the exemption to be taken.</p>
11-12	Financial instruments	<p>Prohibits, when the recognition and measurement requirements of IFRS 9 are applied, fair value through profit and loss measurement of certain financial assets that are not permitted to be measured on that basis by paragraph 36 Schedule 1 to the Regulations. This relates to those instruments that cannot be measured at fair value through profit and loss under IAS 39 but would be measured on that basis in accordance with IFRS 9, because IFRS 9 has not yet been endorsed for use in the EU.</p> <p>NB additional disclosures have been added to this section to comply with the Act however this is not as a result of the new regulations.</p>
13	Inventories	<p>Prohibits the use of fair value less costs to sell when measuring inventories unless it is a more relevant measure of the entity's performance because the entity operates in an active market where sale can be achieved at published prices and inventory is a store of readily realisable value.</p> <p>Amends the measurement of inventories held for distribution at no or nominal consideration to the lower of cost adjusted, when applicable, for any loss of service potential and replacement costs.</p>
18 – 19	Intangible Assets other than Goodwill / Business combinations and goodwill	<p>In rare cases where a reliable estimate of the useful life cannot be determined, the life shall not exceed 10 years.</p> <p>Clarifies that this should be exceptional circumstances and hence not the norm.</p> <p>If the UEL of goodwill cannot be reliably estimated an entity now needs to disclose supporting reasons for the period chosen.</p>
21	Provisions and contingencies	<p>Introduction of minimum disclosures requirements when an entity has decided not to make the relevant disclosures because it can be expected to prejudice seriously the entity in a dispute with other parties on the subject matter.</p>
27	Impairment of assets	<p>Impairment on goodwill shall not be reversed.</p>
33	Related party disclosures	<p>Definition of related parties transactions has been extended to include a member of the group that provides key management personnel services to the entity and key management personnel services provided by the entity to its parent company.</p>
34	Specialised activities	<p>Prohibits the use of merger accounting where it is not permitted by the statutory framework under which a public benefit entity reports.</p>
35	Small entities	<p>Provisions available to small companies (as defined in FRS 102 Appendix IV) that choose to apply the small entities regime.</p> <p>Additional transitional exemptions for periods commencing before 1 January 2017 set out in section 35 from restating the comparatives in respect of equity settled share based payments, fair value measurement of financial instruments and financing transactions involving related parties.</p>

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