



Ten Things You Probably Might Not Know About FRSSE

The Financial Reporting Standard for Smaller Entities (FRSSE) has been with us since 1997. It's become a much-loved standard for the profession because it offers a lot less onerous disclosure requirements than full UK GAAP and simplifies a lot of areas.

The reduced reporting requirements inherent in FRSSE often mean that in some cases FRSSE might not cover a certain issue. In such situations the user has to default back to full UK GAAP to decipher the correct accounting treatment or disclosure requirement in order that the accounts they are preparing under FRSSE can still achieve the truth and fairness provision under Companies Act 2006.

In this article I will summarise 10 issues relating to FRSSE which you might not be aware of and, where relevant, I will point you in the right direction of where to look.

1. Revaluation of fixed assets

FRS 15 *Tangible Fixed Assets* requires a qualified external valuer to perform valuations of property (FRS 15 para 48) whereas FRSSE at paragraph 6.24 only requires an experienced valuer; there is no mention of the valuer having to be qualified in FRSSE.

2. Reviews of useful economic lives – tangible fixed assets

FRS 15 at paragraph 93 states that the useful economic life of a tangible fixed asset should be reviewed at the end of each reporting period. Paragraph 6.40 of FRSSE requires reviews of useful economic lives to be reviewed 'regularly' rather than annually and revised when necessary.

3. Government grants

The accounting requirements under FRSSE for government grants are contained in paragraphs 6.54 to 6.57. FRSSE does not give guidance in relation to grants made for immediate financial support or assistance to a company. It also does not give guidance in relation to grants to reimburse previously incurred costs. If you have such a situation on your hands then you need to follow the accounting treatment in SSAP 4 at paragraph 23.

4. Research and development expenditure

Companies applying FRSSE do not have to disclose:

- the total amount of research and development expenditure charged to profit and loss; or
- movements on deferred development expenditure.

5. Taxation

FRS 16 *Current Tax* requires companies to make detailed disclosure requirements relating to the major components of the tax charge, similar to the following:

	2011 £,000	2010 £,000
<u>UK corporation tax</u>		
Current tax charge on income for the period	X	X
Adjustments in respect of prior periods	<u>X</u>	<u>X</u>
	X	X
Double tax relief	(X)	(X)
	X	X
<u>Foreign tax</u>		
Current tax charge on income for the period	X	X
Adjustments in respect of prior periods	<u>X</u>	<u>X</u>
	X	X
Tax on profit on ordinary activities	X	X

FRSSE does not require such disclosures. Also, FRSSE does not make any reference to tax rates which are to be used for measuring tax.

6. Related party transactions

FRSSE recognises that applying the full disclosure requirements in FRS 8 *Related Party Disclosures* would be too onerous for a small company. FRSSE, therefore, only requires disclosure of those related party transactions which are considered to be material to the small company applying FRSSE. If this concession had not been applied in FRSSE small companies would have had to disclose related party transactions which were material in relation to the other related party.

7. Renewals accounting

Renewals accounting is contained in FRS 15 *Tangible Fixed Assets* in paragraphs 97 to 99. FRSSE does not provide any guidance for dealing with renewals accounting and therefore if you have these situations on your hands you must default back to FRS 15 paras 97 to 99 to apply the correct treatment.

8. Provisions for onerous contracts

FRS 12 *Provisions, Contingent Liabilities and Contingent Assets* deals with the provisions that will be required when a client has an onerous contract. Paragraphs 71 to 74 deal specifically with onerous contracts. FRSSE does not contain any guidance on onerous contracts so you will have to default to FRS 12 and paragraphs 71 to 74 when you need to deal with the accounting treatment for these.

9. Internally-generated intangible assets

FRS 10 *Goodwill and Intangible Assets* says at paragraph 14 that 'an internally developed intangible asset may be capitalised only if it has a readily ascertainable market value'. Also paragraph 43 says that 'where an intangible asset has a readily ascertainable market value, the asset may be revalued to its market value.' FRSSE omits these exceptions for internally developed intangible assets. Paragraph 6.16 of FRSSE also does not allow goodwill and intangible assets to be revalued.

10. Arrangement fees on bank loans

Banks who agree loans for small companies will often charge an arrangement fee for such loans. FRS 4 *Capital Instruments* does not cover the accounting treatment of arrangement fees explicitly and therefore FRSSE does this for us at paragraph 12.4 where it says:

Where an arrangement fee is such as to represent a significant additional cost of finance when compared to the interest payable over the life of the instrument, the treatment set out in paragraph 12.2 shall be followed. Where this is not the case, it should be charged immediately to the profit and loss account.

For completeness, paragraph 12.2 says that finance costs of borrowings are to be allocated to periods over the life of the borrowings at a constant rate on the carrying amount. It also spells out that all finance costs are charged to the profit and loss account.

About the Author



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