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FRS 105
Quick Guide

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Preparing Financial Statements Under FRS 105 and the Micro Companies Regime

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Overview

The Companies (Accounting) Act 2017 commenced on 9th June 2017. It introduced the concept of the Micro Companies Regime which is contained in Section 280D-280E of the Companies Act 2014. This allows companies to prepare financial statements under FRS 105 by applying the requirements of the micro companies regime in the Companies Act.

Which companies can avail of FRS 105 and the micro companies regime?

A company qualifies for the micro companies regime if it fulfils at least two of the three qualifying conditions listed below:

- In relation to its first financial year; or
- In relation to its current financial year and the preceding financial year; or
- In relation to its current financial year and it qualified as a small/medium company in the preceding financial year; or
- In relation to the preceding financial year and it qualified as a small/medium company in the preceding financial year

	Small Co
Turnover	≤ €700,000
Balance Sheet Total	≤ €350,000
Employees	≤10

Note 1: Exception even where the above thresholds are met:
S.280D(4) of CA 2014 excludes the following companies from applying the MCR and hence FRS 105:

1. a company falling within any provision of Schedule 5 of the Act (e.g. Authorised investment firm, insurance intermediary of any other company carrying on of business by which is required to be authorised by the Central Bank); or
2. a company that is a credit institution or insurance undertaking; or
3. a company with securities regulated on a regulated market; or
4. a holding company of a small group even where the group meets the thresholds where any of the entities in the group come within points 1, 2 and 3 above (this only effects the holding company and not the other companies within the group (other than a company that comes within the remit of points 1-3 above)); or
5. an investment undertaking; or
6. a financial holding undertaking; or
7. a holding company that prepares consolidated financial statements; or
8. a subsidiary that is included in the consolidated financial statements of a parent for that year; or
9. any company excluded from the small companies regime; or
10. a charity (Note not excluded from micro entities regime under company law however excluded under FRS 105); or
11. a company that prepares financial statements under FRS 102/IFRS

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What are the key points?

If the company's results are included in the parent's consolidated financial statements FRS 105/MCR cannot be availed of.

Where consolidated financial statements are prepared, FRS 105/MCR cannot be availed of.

Once requirements of MCR are met and the disclosures required under the MCR are met the financial statements are presumed to show a true and fair view. No further disclosures need to be considered.

A holding company that does not meet the conditions of a small group as stated in Section 280B of CA 2014 cannot apply the micro entities regime.

Company has the choice to apply the micro entity regime, the company does not have to apply it.

Where the micro entity regime is applied the company must prepare the financial statements in accordance with FRS 105 'The Financial Reporting Standard Applicable to the Micro-entities Regime.

No requirement for a disclosure in the financial statements detailing any transition adjustments from a previous GAAP to FRS 105.

The disclosures under the MCR are the minimum disclosures. Additional disclosures can be provided but if they are provided they must be in line with the requirements of the small companies regime.

No requirement for a directors report.

No requirement to disclose directors remuneration (under Section 305-S306 CA 2014) or transactions entered into with directors (S.309 CA 2014) other than for loans/quasi loans given by the company to the directors, credit transactions or guarantees entered into for the benefit of directors (as required under S.307-308 CA 2014).

No requirement to disclose total wages and salaries or average number of employees as previously required under Section 317 CA 2014.

No requirement to disclose details of investments held where a significant interest is held as previously required under company law.

The transition date to FRS 105 is the beginning of the comparative period presented in the first set of FRS 105 financial statements.

Under FRS 105:

- assets are not permitted to be carried at fair value or revalued amounts;
- all amounts on the balance sheet must be recognised at historic cost;
- development expenditure must be expensed;
- investment property must be held at cost and depreciated;
- no deferred tax is permitted to be recognised.
- Requirement to accrue for holiday pay
- Borrowing costs to be expensed
- Default useful life of no more than 10 years where a life cannot be determined
- Lease incentives to be released over the full life of the lease
- Equity settled share based payments not recognised until issued
- Goodwill impairments cannot be reversed

- Business combination rules only applicable to acquisition of trade assets/liabilities as opposed to shares as consolidated financial statements are not permitted to be prepared.

What are the maximum disclosures under FRS 105?

Details	**Statutory reference**
Directors report – no requirement to include same but can be included.	S.325 CA 2014
Auditors report – as previously except (under auditing standards for periods beginning before 15 June 2016): - Delete references to the directors report where exemption claimed In the paragraph 'Matters on which we are required to report by the Companies Act 2014' delete; - the line 'In our opinion the information given in the directors' report is consistent with the financial statements' where this is not presented. - the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of the Act are not made; *and the directors were not entitled to prepare the financial statements in accordance with the micro companies regime and take advantage of the exemption from disclosing certain information required by sections 305 to 312* Insert statement in new paragraph 'Other Matters' under paragraph 'Matters on which we are required to report by exception': - 'The financial statements have been prepared on the basis that as per Section 336(3A) of the Companies Act 2014 the company qualifies for the micro companies regime, it complies with the minimum requirements of this Act (within the meaning of Section 324(11)) in relation to its financial statements and therefore is presumed to give a true and fair view as required by subsection (3)'. ***Auditors report – (under new IAASA auditing standards for periods beginning on or after 15 June 2016):*** Basic Structure of Audit Report - (New Revised Format For Clean Opinion) - Opinion (now presented at start of report) - Basis for opinion - Conclusions relating to going concern - Opinions on other matters prescribed by the Companies Act 2014 - Matters on which we are required to report by exception - Responsibilities of directors for the financial statements - Auditor's responsibilities for the audit of the financial statements - The purpose of our audit work and to whom we owe our responsibilities In the paragraph 'Matters on which we are required to report by the Companies Act 2014' delete; - the line 'In our opinion the information given in the directors' report is consistent with the financial statements' where this is not presented. - the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of the Act are not made; *and the directors were not entitled to prepare the financial statements in accordance with the micro*	S.336 & S.337 CA 2014 ... S.336 & S.337 CA 2014 / ISA700, ISA701, ISA705, ISA706, ISA570

companies regime and take advantage of the exemption from disclosing certain information required by sections 305 to 312 Insert statement in new paragraph 'Other Matters' under paragraph 'Matters on which we are required to report by exception': - 'The financial statements have been prepared on the basis that as per Section 336(3A) of the Companies Act 2014 the company qualifies for the micro companies regime, it complies with the minimum requirements of this Act (within the meaning of Section 324(11)) in relation to its financial statements and therefore is presumed to give a true and fair view as required by subsection (3)'.	
Profit and loss account	
Must be presented in a format as permitted by Companies Act 2014 - Schedule 3B – Format 1: i.e.: Turnover; Other income; Cost of materials and consumables; Staff costs; Value adjustments and other amounts written off assets; Other expenses; Tax; Profit or loss	Formats Sch 3B CA 2014
The balance sheet	
Must be presented in a format as permitted by Companies Act 2014 - Schedule 3B – Format 1 or 2 – Total figures no need for notes to show split; Called up share capital not paid; Fixed assets; Current assets; Prepayments and accrued income; Creditors: amounts falling due within one year; Net current assets (liabilities); Total assets less current liabilities; Creditors: amounts falling due after more than one year; Provisions for liability; Accruals and deferred income; Capital and reserves	Formats Sch 3B CA 2014
Statement to be included above the approval of the financial statements of the balance sheet disclosing the fact that the accounts are prepared in accordance with the micro companies regime and FRS 105.	S3.14 FRS / S.324 CA 2014
Approval by directors on financial statements noting that they show a true and fair view.	S.324 CA 2014
Notes to the financial statements (Section 3.9 of FRS 105 requires the notes to be included on the foot of the balance sheet. However, based on financial statements prepared by certain Accountancy bodies they are showing the notes separate from the balance sheet and not at the foot of the balance sheet. Therefore in order to conform with the Accountancy Bodies interpretation albeit it is not in compliance with Section 3.9 of FRS 105 an entity should show the notes separate from the balance sheet (and not at the foot of the balance sheet)	
Disclosure of accounting policies. New requirement to – disclose a change in accounting policy in the accounting policy section detailing the reason for the change for it and the impact of the change on the current and prior years.	S.321 CA 2014
Going concern disclosure (and basis if not prepared on a going concern).	Sch 3B(12) CA 2014
Details of dividend paid/payable/declared split by amount included in accruals at the period end.	Sch 3B(33) CA 2014
Departure from the requirements of Companies Act and FRS 105 to be disclosed	Sch 3B(19)) CA 2014
Loans/quasi loans/ given to directors (inc. de facto & shadow) and any guarantees/credit transactions entered into for benefit of directors (Section 307-308); • No need to disclose max amount O/s in year – instead disclose amount written off • Usual disclosures required with regard to balance at start and end	S.308-308 CA 2014

of each year, movement, terms of arrangements, interest rate, names of directors, % of loan to net assets, repayments, and advances in the year etc. For guarantees; details of the arrangement entered into including value, an indication of the interest rate and any other relevant conditions Exemption from disclosure if the arrangements did not exceed €7,500 for any director or a connected party in the year.	
Disclosure of holding of own shares or shares in holding company – detailing amount and nominal value by class and amount of profits restricted as a result to include the % of shares held to total shares in issue. Investment in holding company shares should be disclosed in equity in the balance sheet as a deduction from capital and reserves.	S.320 CA 2014
Where an asset or liability relates to more than one of the items listed in either of the balance sheet formats, then its relationship to other items shall be disclosed under the item where it is shown or in the notes to the financial statements. For example finance leases may be shown within the line 'creditors within one year' and 'creditors greater than one year' so as a result disclosure of this fact should be made. The same point applies for bank loan, grants etc.	Sch 3A(4)(7) of CA 2014
Acquisition or disposal of own shares disclosures – – detail movement inc. balance at the beginning and end of each year – including details of shares acquired or held by subsidiary undertakings – number and nominal value of shares held by Co or Sub Co.'s – consideration paid for shares	S.328 CA 2014
Dividends paid/declared split by amounts included in accruals at period end.	Sch 3B(48) CA 2014
Accruals for pension liabilities.	Sch 3B(35)(5) CA 2014
Impairment/reversal of impairment on financial assets.	Sch 3B(23) CA 2014
Prior period errors resulting in change in prior year presentation comparatives including the details of the adjustment and the reasons for it.	Sch 3B(5) CA 2014 – As required by S.8.16 of FRS 105
Change in presentation from the prior year including the details of the adjustment and the reasons for it.	Sch 3B(5) CA 2014 && S3.6 of FRS 105
Disclose change in accounting estimate, reason for same and impact.	Sch 3B(19) CA 2014
Details of indebtedness – disclose: - amount in total included in creditors where security is held, - type and nature of securities held.	Sch 3B(34) CA 2014
Detail useful life on goodwill and the reason for capitalisation and selecting useful life.	Sch 3B(25) CA 2014
Disclose impairment/reversal of impairments on all fixed assets (Sch 3A (23(2).	Sch 3B(23)(2) CA 2014
Details of guarantees and other financial commitments inc. contingencies.	Sch 3B(35) CA 2014

Movement on profit and loss reserves inc.. transfers in and out to be disclosed if not shown on face of profit and loss account to include details of prior year adjustments, dividends declared paid and unpaid etc.	Sch 3B(33) CA 2014
Disclosure of presentational currency and level of rounding.	FRS 105 S3.13
Name, legal form, registered office address, company registration number and if the company is being wound up.	S.291(3)(A) CA 2014
Disclosure of guarantees/commitments/contingencies to be disclosed separately where they are for the benefit of the sub, parent sister companies or companies with which the company has a participating interest.	Sch 3B(35)(6) CA 2014
Include note disclosing the fact the ES PASE was applied if that is the case.	ES PASE

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What are the principal differences?

Asset/liability / item	**FRS 105**	**Old GAAP / FRSSE**	**FRS 102**	**Impact on transition**
Investment property	Carried at cost less impairment and depreciation.	Carried at market value and not depreciated with movement in value recognised in STRGL/revaluation reserve unless there was a permanent diminution in value.	Carried at fair value through P&L. However option to carry at cost less depreciation if fair value could not be determined without undue cost or effort.	Need to de-recognise any previous fair value adjustments and bring it back to cost less depreciation and impairments at the date of transition. Note there is an exemption on transition to estimate the depreciated cost by identifying the principle element of the cost and determining accumulated depreciation on that and then allocating from there. Adjustment required where disposal of investment property occurred in comparative year to recognise the additional profit on the disposal under FRS 105 as would be held under cost model and not at revaluation (under old GAAP less of profit recognised in P&L as already in revaluation reserve and then reallocated in the reserves from the revaluation reserve). Adjustment required to reverse any posting of movement in fair value in the comparative year to the STRGL/revaluation reserve. Deferred tax recognised on the revalued amount should also be derecognised on transition (applicable when transitioning from FRS 102).
Tangible fixed assets / intangible fixed assets	Assets must be held at cost less depreciation/ impairment.	Revaluation policy permitted with movements through STRGL.	Revaluation policy permitted with movements through OCI.	Derecognise the remaining revaluation to cost less depreciation. This will be the amount included in the revaluation reserve in equity after excluding deferred tax recognised if any. If transitioning from FRS 102 and under that standard a previous valuation or fair value at deemed cost

	A revaluation policy is not permitted.		On transition to FRS 102 there is an ability to deem a previous valuation or fair value at the date of transition as deemed cost.	was utilised an adjustment will also be required as this deeming provision is not available under FRS 105. Movement recognised In comparative year under old GAAP/FRS 102 should be reversed in the FRS 105 comparatives. Adjustment required where disposal of the revalued property occurred in comparative year to recognise the additional profit on the disposal under FRS 105 as would be held under cost model and not at revaluation (under old GAAP less of profit recognised in P&L as already in revaluation reserve and then reallocated in the reserves from the revaluation reserve). Deferred tax recognised on the revalued amount should also be derecognised on transition (applicable when transitioning from FRS 102) but this adjustment will be considered as part of the overall derecognition of deferred tax on transition to FRS 105.
Holiday pay	Required to accrue for holiday pay.	Not specifically required to accrue for holiday pay.	As per FRS 105.	No impact on transition from FRS 102 to FRS 105. On transition from FRSSE to FRS 105 recognise liability at date of transition and post movement in comparative year so as to have accrual at end of comparative year. Tax deduction on the accrual not previously allowed can be claimed in tax comp over 5 years.
Borrowing costs	Must be expensed.	Accounting policy choice to expense or capitalise.	As per Old GAAP.	Derecognise NBV of borrowing costs previously capitalised if applicable at the date of transition.

				In the comparative year reverse the depreciation posted on the borrowing costs previously capitalised.
Useful life of intangibles/ goodwill	Default life of no more than 10 years.	Default life of 5 years.	As per FRS 105.	Unlikely to result in an adjustment given that the useful life was justified in the past.
Lease incentives	Released over life of the lease.	Released from date of inception to first market rent review/break clause.	As per FRS 105.	No transition adjustment on moving from FRS 102 to FRS 105. On transition from old GAAP to FRS 105, it is possible to claim exemption not to restate lease incentives received prior to the date of transition. Where a lease incentive was received in the comparative year (since the date of transition) and FRSSE was applied prior to transition, restate the lease incentive accrual to the required amount under FRS 105 (debit to P&L and credit to accruals).
Equity settled share based payments	Not recognised until issued.	FRS 20- Recognised over the vesting period from the date of grant of the option/ entitlement to the date of vesting. FRSSE - equity share based payment arrangements not recognised until settled/issued.	As per Old GAAP.	On transition derecognise the amount included in the share based payment reserve with regard to equity settled shares and post it to the profit and loss reserve. Reverse any equity share based payment cost recognised in the comparative year. FRSSE – no adjustments required
Deferred tax	Not to be recognised.	Deferred tax to be recognised on certain timing differences other than on revaluations and fair value adjustments on business combinations.	As per Old GAAP but additional deferred tax to be recognised on revaluations and fair value adjustments.	Derecognise any deferred tax on the balance sheet and post it to the profit and loss reserve/revaluation reserve as applicable. Reverse movement on deferred tax recognised in the P&L/OCI in the comparative year under old GAAP/FRS 102.

Residual values of assets	Residual values adjusted where indicators that a change in the estimate exists.	Residual values determined at date of acquisition and not adjusted subsequently.	As per FRS 105.	
Spare parts and stand-by equipment	Classed as tangible fixed assets and depreciated.	Could be classified as stock or tangible fixed assets.	As per FRS 105.	Merely a reclassification adjustment on the balance sheet in the comparative year assuming the stock provision policy is in line with the depreciation policy.
Prior period error	Adjustment required to the comparative year if the adjustment is material.	Adjustment only required where the error was considered fundamental in nature.	As per FRS 105.	For a transition from FRSSE only, where there was a material error in the comparative year which was not adjusted as it was not deemed fundamental an adjustment will be required to restate the prior year.
Exceptional item	Not defined and no guidance as to when it should or should not be shown on face of P&L. Need to determine an accounting policy for same.	Well defined and 3 instances where it was to be shown on the face of the P&L. In all other cases it should be shown in the notes.	As per FRS 105.	Depending on the policy chosen on transition, and if there was exceptional items in the past, there may be a change in how this is presented on transition from FRSSE to FRS 105.
Development costs	All development expenditure must be expensed.	Accounting policy choice to either expense or capitalise (assuming certain conditions for capitalisation were met).	As per old GAAP.	Adjustment on transition where capitalisation policy previously applied to reduce intangibles relating to development costs to zero with the corresponding adjustment posted to P&L reserves. Consideration will need to be had as to whether there is a tax impact as a result of this adjustment. If so this can be claimed in the tax computation over a 5 year period.

				In the comparative year an adjustment will be required to reverse the amortisation charged on the intangible under old GAAP in that year.
Goodwill impairments	Goodwill impairments cannot be reversed.	Goodwill impairment could be reversed if the conditions that caused the impairment reversed.	As per FRS 105.	No adjustment on transition as previous estimates cannot be changed. However where there was a reversal under FRSSE in the comparative year this will have to be undone and posted to P&L reserves.
Business combinations	Business combinations are only defined as acquisition of trade assets/liabilities as opposed to shares. Purchase accounting with regard to shares is not applicable as consolidated financial statements cannot be prepared.	Business combination include both acquisition of shares and trade assets/liabilities.	As per old GAAP with some differences which are not applicable for the purposes of this article.	As consolidated financial statements are not being prepared under FRS 105 all investments will be carried at cost less impairment. If deferred tax recognised this will be derecognised as part of the removal of all deferred tax on the balance sheet as discussed above.
Consolidated financial statement's	Cannot be prepared.	Can be prepared.	Can be prepared.	No adjustment.
Transaction costs and arrangement fees on loans	Initially capitalised where material and set against the related assets/liability and written off on a straight line basis	Initially capitalised where material and written off on a straight line basis over the life of the loan. Note this was not always applied in practice.	Initially capitalised with the loan and released on an amortised cost basis over the life of the loan.	On transition from FRSSE there should be no adjustments however if these were incorrectly accounted for then it should be corrected on transition and reflected as a material error. If the transaction cost was included in accruals/prepaids it will have to be reclassified to set against the related liability/ asset on transition also.

	over the life of the loan.			On transition from FRS 102 an adjustment will have to be made to recalculate the carrying amount under FRS 105 rules, then post the difference to P&L reserves. Income tax will need to be considered on this adjustment (tax deductible/taxable over a 5 year period and so should be included in future tax computations).
Sales / purchases at unusual credit terms	Sales/purchase made at unusual credit terms should be recognised at the cash price or constant rate of return initially and the deemed interest released over the extended credit term.	Sales/purchase made at unusual credit terms should be recognised at the cash price or constant rate of return initially and the deemed interest released over the extended credit term. This may not always have been applied	Recognised initially either at the present value of the cash flow at a market rate of interest.	Unlikely to be adjustments here assuming it was treated correctly under old GAAP
Close company surcharge	No need to accrue for the close company surcharge in the period it arises where it is probable a dividend will be paid out within 18 months of the period end to avoid it	As per FRS 105	Requirement to provide for the close company surcharge in the year it arises regardless of whether a dividend will be paid within 18 months to avoid the surcharge	No adjustments on transition from the FRSSE/old GAAP. Adjustment required on transition to recognise a liability for close company surcharge at the date of transition (after taking into account payments paid pre date of transition). Adjustments also required in comparative year for movements on this close company surcharge during the year to reflect the required surcharge at the end of the comparative year.
Commitments made to fund a pension scheme deficit (multi-	Required to accrue at the date the commitment is made.	Not required to accrue, instead expense as paid.	As per FRS 105.	An adjustment will be required on transition from FRSSE to recognise the amount committed to at the date of transition and release the accrual in the comparative year.

employer scheme)				
Impairment reviews	Only carry out when indicators of impairment exist.	For intangibles, carry out impairment annually where useful life exceeds 20 years For tangible fixed assets carry out impairment annually where useful life exceeds 50 years. In first year of acquiring goodwill, review for impairment.	As per FRS 105.	No adjustment will be necessary.
Provision for closure costs	Cannot accrue for future losses as part of this closure provision.	Possible to accrue for closure costs as part of the provision.	As per FRS 105.	On transition from FRSSE an adjustment will be required to derecognise the accrual element relating to future costs. An adjustment will also be required in the comparative year to show the loss in that year.
Group defined benefit scheme	At least one group company must recognise the defined pension scheme on the balance sheet.	Ability for no group company to recognise the defined benefit scheme on balance sheet, instead treated as a defined contribution scheme in all group entities on basis that scheme assets and liabilities could not be split by companies within the group.	As per FRS 105.	On transition from FRSSE an adjustment will be required to recognise the defined benefit asset/liability on the balance sheet with the corresponding adjustment posted to P&L reserves.
Premium/discount on bonds	Include within the initial carrying amount and release to the P&L as interest income on at the contractual rate of	As per FRS 105.	Initially as part of the investment cost and released on an amortised cost basis over the remaining life of the bond.	On transition from FRSSE there should be no adjustments however if these were incorrectly accounted for under FRSSE then it should be corrected on transition and reflected as a material error with the comparative year restated if material.

	interest on the bond over the remaining life of the bond.			On transition from FRS 102 an adjustment will have to be made to recalculate the carrying amount under FRS 105 rules with the corresponding adjustment to P&L reserves. An adjustment will be required to the comparative year where it is material. Income tax will need to be considered on this adjustment as going forward the adjustment will be taxable/tax deductible over a 5 year period.
Inter-company loans/ directors loans at non-market rates and not repayable on demand	Carried at the amount of the loan advanced/received after repayments and any interest if charged.	Carried at the amount of the loan advanced/received after repayments and any interest if charged.	Section 11 requires this to be recognised initially at the present value of the future cash flows discounted at the market rate of interest for a similar loan and subsequently at amortised cost.	No adjustment required on transition from the FRSSE. Adjustment required on transition from FRS 102 to restate the balance to the actual amount of loan received/advanced less repayments etc. The net adjustment will go to P&L reserves at the date of transition (or to 'other reserve where some of the original present value was recognised in that reserve or to the investment in subsidiary (if a parent entity) if posted to there under FRS 102). An adjustment will also be required to derecognise any movement posted for deemed interest in the comparative year.
Listed investments and investments in shares where less than a significant influence is held	Carried at cost less impairment.	Carried at cost less impairment.	To be carried at fair value with movements in fair value recognised in the P&L. Deferred tax is also to be considered. For investments in unlisted shares where less than a significant influence is held, where this investment can be reliably measured it must	No adjustments on transition from FRSSE. Adjustment on transition from FRS 102 where the fair value is greater than cost less impairment to derecognise the uplift to P&L reserves on transition. Adjustment also required to reverse any movement recognised in the P&L in the comparative year. Deferred tax also derecognised as part of the de-recognition of deferred tax generally.

			be held at fair value with changes in fair value recognised in the P&L.	
Forward contracts, interest rate swaps/ derivatives etc.	The fair value of forward contracts are not recognised on the balance sheet nor is there a disclosure required in the accounts.	The fair value of forward contracts are not recognised on the balance sheet instead these are disclosed in the financial statements.	The fair value of forward contracts/derivatives are recognised on the balance sheet with the corresponding entry to P&L or OCI depending on whether hedge accounting is applied.	On transition from FRSSE no adjustments are required. On transition from FRS 102 adjustments are required at date of transition to derecognise these assets/liabilities from the balance sheet with the corresponding entry to P&L reserves/fair value/cash flow hedge reserve as applicable.
Investments in associates and joint ventures	Must be carried at cost less impairment.	Can be carried at cost less impairment or revaluation with movements in revaluations recognised in the STRGL/revaluation reserve.	Choice to recognise at cost less impairment, revaluation with movement recognised in OCI/revaluation reserve or at fair value with movement recognised in P&L.	Adjustment required on transition from either GAAP where investments are held at revalued amount or fair value. Adjustment required in comparative year to reverse any movement on revaluation/fair value where it was recognised under old GAAP.
Assets / liabilities held at fair value	No assets or liabilities to be held at fair value	Limited circumstances where held at fair value however even in those instances the movement is recognised in the STRGL.	Section 12 requires all non basic financial instruments to be held at fair value with changes in fair value being recognised in the P&L.	No adjustments on transition from FRSSE. Adjustments required on transition from FRS 102 to derecognise any assets/liabilities not dealt with above from the balance sheet with the corresponding entry to P&L reserves.
Debt/equity	FRS 105 has simpler rules for determining whether a financial instrument should be classed as debt or equity. FRS 105 states that a financial	Old UK & Irish GAAP/FRSSE have more detailed rules and guidance in this area (liquidation was not the only reason for an item not being classified as a financial liability). It had additional	As per old UK & Irish GAAP/FRSSE.	If these instruments exist an adjustment may be required on transition from the previous GAAP to FRS 105. Given the size of micro entities it is unlikely that entities applying FRS 105 will have these type of instruments so therefore this adjustment is not likely to apply too often in practice. An example the journals required where this difference does arise is as per the below:

	instrument must be classified as debt/financial liability where the issuer does not have an unconditional right to avoid settling an obligation in cash or delivery of another financial instrument other than by reason of liquidation of the issuer.	circumstances where the instrument could be classified as equity. For example these frameworks had rules which stated that where a fixed amount of shares was to be exchanged for a fixed amount of debt (and this was known from inception) then this met the definition of equity (under FRS 105 rules this instrument would be classified as a financial liability). Other examples are rules for instruments where settlement was only required on the occurrence and non-occurrence of uncertain future events which the issuer could control, these were considered when determining whether an item was to be classified as debt or equity (if in control of the issuer then it could be classified as equity – This compares to FRS 105 rules where they must be classified as debt/financial liability).		Dr Equity Cr Financial liability Being journal to reflect the reclassification of the shares from equity to debt as required under FRS 105 Journals required for year 31 December 2015 Dr Equity Dr interest cost/other charges Cr Financial liability Cr Equity for dividend posting Being journal to reflect the reclassification of the shares from equity to debt as required under FRS 105 in the comparative year and the reclassification of the dividend payment from equity to P&L (originally posted straight to P&L reserves under previous GAAP treatment)
Government grants	Grants to be recognised on an accruals basis. Revenue grants to be	As per FRS 105.	As per FRS 105 but in addition a choice to recognise government	No adjustments on transition from FRSSE. Possible adjustment on transition from FRS 102 where the performance basis was previously adopted.

	recognised in P&L on a systematic basis over the periods in which the entity recognises the related costs. Capital grants recognised in P&L over the useful life of the related assets.		grants of all types on a performance basis.	
Allocating impairment in CGU	**Allocation of impairment losses:** first, to reduce the carrying amount of any goodwill allocated to the CGU; then to other assets of the unit pro rata on the basis of the carrying amount of each asset in the CGU.	**Allocation of impairment losses:** • first, to any goodwill in the unit; • thereafter, to any capitalised intangible asset in the unit; finally, to the tangible assets in the unit, on a pro rata or more appropriate basis.	As per FRS 105.	Where a CGU was impaired in the past it will need to be reviewed to assess if an adjustment is required to comply with the new rules. If the CGU was fully impaired there will be no impact of the difference in GAAP treatment.
Foreign currencies	Where forward foreign currency contracts exist or a rate is included in the contract itself, the entity must retranslate monetary foreign currency	Where forward foreign currency contracts exist choice to either retranslate monetary foreign currency balances at the average forward rate to cover the net foreign currency balances **OR** the year end spot rate.	Year end monetary assets must be retranslated at the year end spot rate and any foreign currency forward contracts must be recognised on the balance sheet at fair value separately.	**Transition from FRSSE/old UK & Irish GAAP** Where the entity applied the option to state year end monetary balances at the period end spot rate where a forward foreign currency contract existed to match the sale an adjustment will be required to restate the period end balance at the forward rate.

	balances at the average forward rate to cover the net foreign currency balances at the period end. If there is no contract rate/forward foreign currency contract then the entity must use the spot rate. If no forward contracts then the spot rate must be used. Must recognise foreign currency transactions at the forward rate/contract rate where one exists. If no forward contract rate, the transaction rate on the day must be used. Open forward foreign exchange contracts themselves	If no forward contracts then the spot rate must be used. Possible to recognise foreign currency transaction at the forward rate **OR** at the rate at the date of the transaction. If no forward contract, the transaction rate must be used. Open forward foreign exchange contracts themselves cannot be fair valued on the balance sheet	Foreign currency transactions must be recognised at the rate at the date of the transaction.	In addition where the spot rate on the date of the transaction was used to recognise a foreign currency transaction e.g. a sale, then an adjustment will be required to restate the sales/purchases in the year from the spot rate to the forward contract rate. This will be a reclassification adjustment from sales for example to FX gain/loss in administrative expenses in the P&L. **Transition from FRS 102** Adjustments on transition from FRS 102 where the entity had forward foreign exchange contracts to match the foreign transaction, as under FRS 102 the entity previously used the spot rate to retranslate the year end monetary assets An adjustment is required at date of transition to restate the unsettled monetary foreign currency balances at the average forward rate to cover the exposure with the corresponding entry to P&L reserves at the date of transition and an adjustment in comparative year posted administrative expenses in the P&L). In addition as the spot rate on the date of the transaction was used to recognise a foreign currency transaction under FRS 102 e.g. a sale, then an adjustment will be required to restate the sales/purchases in the year from the spot rate to the forward contract rate. This will be a reclassification adjustment from sales for example to FX gain/loss in administrative expenses in the P&L. A corporation tax adjustment will also be required on transition and in the comparative year so as to reflect the asset/liability for items to be taxed in the future. The net adjustment at the end of the comparative year will be

	cannot be fair valued on the balance sheet			taxed/tax deductible over 5 years/in line with tax authority guidance. As already discussed above the fair value of the forward contracts on the balance sheet will also have to be derecognised.

Quick Guide

Preparing Financial Statements Under FRS 105 and the Micro Companies Regime

What do accountants need to do?

Review their client listing to assess which companies can apply FRS 105 and plan the practice schedule accordingly. When reviewing the list assess whether companies which have assets held at fair value/revaluation will meet the requirements of a micro company once these revaluations/fair values have been stripped out.

Advise clients of the additional choices available with regard to accounting standards (FRS 105/Section 1A FRS 102) and the benefits this will provide with regard to the reduced disclosure requirements.

Accountants that have prepared financial statements in accordance with the FRSSE 'effective 1 January 2015', FRS 102 or old GAAP if still applicable for the previous period end will need to assess the transition adjustments required on transition to FRS 105 to derecognise certain assets and liabilities due to the simplistic nature of this standard.

Advise clients of the benefits and drawbacks of adopting the micro companies regime so that directors of companies really appreciate the implications of choosing FRS 105 and the micro companies regime. Some of the implications are:

- If the company increases in size the company will then no longer meet the requirements of the micro companies regime and as a result will have to go through the pain of transitioning to a new accounting standard all over again;
- Given the simplicity of the financial statements, for an external party reviewing these financial statements, they may not provide enough detail e.g. banks, potential customers.
- The company's balance sheet only shows cost and does not allow entities to show fair values.
- Does the company wish to capitalise development costs (some companies do)?
- If the results are included in the parent company consolidated financial statements FRS 105 financial statements cannot be prepared.
- The balance sheet of the company may be significantly impacted as a result of a revaluation policy not being permitted. Possibility it could impact banking covenants.

Be aware of the proposed exemptions from the disclosure of directors remuneration under S.305, 305A, 306 and transactions and arrangements with directors under S.309 (other than amounts owed by directors to the company as this will still require disclosure under S.307 & S.308) for companies that qualify for the micro companies regime therefore reducing the amount of information visible to the public.