

CONSULTATION SUMMARY

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RESPONSE TO THE ACCOUNTING STANDARDS BOARD (ASB) DISCUSSION PAPER - “A ONE-STOP SHOP FRSSE”

The AAT is pleased to comment on the discussion paper and its impact on accounting for smaller entities. We have over 100,000 members, many of whom are employed in smaller entities. In particular, we have approximately 1800 self-employed members and virtually all of those provide accounting services to smaller entities.

Initially we have addressed the questions raised in paragraph 29 of the Preface as follows:-

- (i) Do you believe that the incorporation of companies legislation requirements into a “one-stop shop” FRSSE would be of benefit to small companies?

We consider the convenience of a single standalone authoritative reference work will significantly reduce failures to comply with accounting requirements and can see no disadvantage in such a document.

- (ii) Do you have any specific comments on how the requirements of companies legislation have been incorporated into the “one-stop” FRSSE?

We consider that the statutory requirements should be incorporated into the main body of the Standard in order to be the most useful to preparers of accounts. If they are contained in a separate Appendix, many of the benefits of the “one-stop” reference are lost and preparers of accounts would be in the same situation as having to cross refer to separately published statutory requirements.

- (iii) Do you agree that companies preparing consolidated financial statements should no longer be eligible to apply the FRSSE?

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As long as smaller entities are not required to produce consolidated accounts by statute, there is no practical need to be eligible to apply the FRSSE, as very few smaller entities would choose to incur the costs of consolidation voluntarily.

However, the financial affairs of a “smaller entity group” are usually more interwoven and interdependent than those of a larger group, frequently with entities in the group sharing common resources (such as premises, staff and management) with inter company trading (with the problems of transfer pricing) and in particular, common financial resources, with cross guarantees and inter company loans. Smaller entity groups should, therefore, be encouraged to prepare group accounts and the application of the FRSSE should be available to smaller groups consolidated accounts.

If smaller groups are to be excluded from the FRSSE, such should be explicitly stated in the list on page 15 of the Discussion Paper.

- (iv) Do you agree with the proposal to include only one of the two options contained in Schedule 8 for the balance sheet format?

There does not appear to be any benefit in providing options for formats of balance sheet, whereas with only one standard format available comparisons and compliance with disclosure requirements are easier.

- (v) Do you agree with the proposal to include only two of the four options contained in Schedule 8 for the profit and loss account format?

As referred to in respect of options for balance sheet formats, there appears to be most benefit in permitting only one profit and loss account format. In practice, it is believed that “format 2” included in the FRSSE is rarely used by smaller entities.

On a matter of detail, although the separate disclosure of “Extraordinary Income” and “Extraordinary Charges” follows the requirements of FRS3, by the definitions disclosed in FRS3,

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such items are extremely unlikely to be relevant to smaller entities and their inclusion in the standard format could result in a misuse of the category. It may be preferable to omit these headings from the standard format, but include a footnote concerning disclosure of extraordinary items should they arise.

- (vi) Do you agree that paragraph 3.6 which contains guidance on accounting for costs incurred with the introduction of the euro should be removed from the FRSSE?

At this point of time, it is considered that very few smaller entities have significant costs arising from the introduction of the euro. Consequently, paragraph 3.6 could be removed from the FRSSE for the benefit of simplification.

- (vii) Are there any other changes that you think should be made to the FRSSE?

It is considered that usually failures to comply with Standards or Statutes result from ignorance or interpretation errors and possibly the frequency of accounting errors arise in the accounts of smaller entities, due to the limited access to technical facilities which may be available to the preparers of accounts of larger entities.

The experiences of various quality review bodies, primarily the erstwhile J.D.S., as regards common disclosure errors are published from time to time and it could be helpful to users of the FRSSE for those common errors to be incorporated as explanatory notes within the body of the FRSSE.

Having commented, as requested, on the specific questions raised on the Discussion Paper, we would wish to make a general comment concerning the international status of the FRSSE.

Although the IASB has a SME Project in the early stages of development, there does not appear to be a great impetus to bring such to fruition. Greater progress has been made by the United Nations Conference on Trade and Development in having published proposed Accounting Standards for SME's, particularly intended for the benefit of developing countries.

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Given the slow progress within the IASB, the ASB should recognise the opportunity for influencing SME Accounting Standards internationally. Providing a standalone publication will facilitate this influence, but in addition, further simplification of the FRSSE requirements should be considered to recognise the lack of accounting resources available, or affordable, to smaller entities, not only internationally, but also in the UK.

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