

Chapter 10 Essentials of the FRSSE – the Financial Reporting Standard for Smaller Entities

10.1 Development of the FRSSE

10.1.1 Introduction

The Financial Reporting Standard for Smaller Entities (FRSSE) is the Financial Reporting Standard which brings together, in one document, all accounting requirements applicable to smaller entities. The FRSSE prescribes the basis for preparing and presenting the accounts of small entities (as defined in the standard – basically on the same criteria as ‘small companies’) and incorporates all relevant companies legislation and accounting standards.

A small company may choose not to adopt the FRSSE, in which case all accounting standards (UK or international) and UITF Consensus Abstracts apply in full where appropriate or not otherwise specifically exempted.

A small company preparing true and fair view accounts which chooses to adopt the FRSSE is exempt from all other accounting standards (FRSs and SSAPs) and UITF Abstracts (except those relevant to the production of consolidated accounts, that is FRSs 2, 5, 6, 7, 9, 10, 11 and 28). (FRS 10 and, as directed by FRS 10, FRS 11 need be applied only in respect of purchased goodwill arising on consolidation.)

The FRSSE was originally issued in 1997. The ASB has subsequently revised the FRSSE on four occasions when there have been sufficient accounting developments to incorporate. For accounts produced under the CA 2006 regime (see **10.1.2**), the applicable version of the FRSSE is the FRSSE (effective April 2008). Unless another version of the FRSSE is specifically referred to, all references to the FRSSE in this book are to the April 2008 version.

In one self-contained document, the FRSSE presents definitions, accounting treatments and measurement criteria that are consistent with existing accounting standards but in a simplified version. Some disclosure requirements are also simplified or excluded. In the absence of specific guidance within the FRSSE, accepted accounting practice should be interpreted and adopted having regard to FRSs, SSAPs and UITF Abstracts generally. Industry – or sector – specific SORPs may indicate the circumstances in which the current FRSSE is to be adopted.

The FRSSE is not available to and does not apply to:

- large or medium-sized companies, groups or other entities;
- public companies;
- companies preparing IAS accounts (individual or group);
- companies preparing accounts (individual or group) under fair value accounting rules (SI 2008/409 Sch. 1 Section D);
- authorised insurance companies, banking companies, e-money issuers, MiFID investment firms, UCITS management companies or companies that carry on insurance market activity;
- persons (other than small companies) who have permission under Part 4 of FSMA 2000 (in the UK) to carry on a regulated activity (*or, notwithstanding the definition of a small company in the*

- legislation, companies authorised under the Investment Intermediaries Act 1995 (in the Republic of Ireland)); and
- members of an ineligible group. (A group is ineligible if any of its members is: a public company; a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; a person (other than a small company) who has permission under Part 4 of FSMA 2000 to carry on a regulated activity; a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company; or a person who carries on insurance market activity.)

A 'small' subsidiary which is a member of a 'large' or 'medium-sized' group (which is not otherwise excluded) is entitled to choose to adopt the FRSSSE if it so wishes.

A small company which chooses to adopt the FRSSSE should disclose which version of the FRSSSE it is adopting. The disclosure may be included with the accounts note of accounting policies or in the statement required by the Companies Act on the balance sheet. For example, the statement could read as follows:

'These accounts have been prepared in accordance with provisions applicable to companies subject to the small companies regime as set out within Part 15 of the CA 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008).'

If abbreviated accounts are also prepared, the statement referring to the Financial Reporting Standard for Smaller Entities (effective April 2008) should be included with the note of accounting policies so that it is reproduced within the abbreviated accounts.

10.1.2 The 'FRSSSE (effective April 2008)' – CA 2006

The Financial Reporting Standard for Smaller Entities (effective April 2008) updated and superseded the previous FRSSSE to incorporate company law changes, primarily CA 2006. The FRSSSE is regarded as standard for financial statements relating to accounting periods **beginning on or after 6 April 2008**.

The recently issued FRS 100 *Application of Financial Reporting Requirements* made a number of consequential amendments to the FRSSSE and these are explained in **Chapter 15 (15.6)**

The FRC has indicated that in light of proposals from the European Commission made in October 2011 regarding small company reporting, the FRSSSE is likely to be retained and a revised FRSSSE issued. See **Chapter 15** for further details on the developments relating to financial reporting in the UK and the possible impacts on the FRSSSE.

10.2 Essentials of the 'FRSSSE (effective April 2008)'

10.2.1 Contents of chapter

This chapter provides the essential elements and requirements of the FRSSSE by summarising its main contents and making cross references to the FRSSSE itself. The full text of the FRSSSE is available from the FRC website at:

[www.frc.org.uk/FRC-Documents/ASB/FRSSSE-\(effective-April-2008\).aspx](http://www.frc.org.uk/FRC-Documents/ASB/FRSSSE-(effective-April-2008).aspx)

This book does not contain a facsimile of the FRSSSE; a FRSSSE compliance checklist is at **Appendix E**.

The FRSSE in the context of accounting standards generally and in particular the requirement for small company accounts to give a true and fair view is explained in **10.2.2** and **10.2.3**.

Further commentary on a variety of aspects of the FRSSE covers:

- cash flow statements (**10.4** and **Table 10.3**);
- small groups (**10.5**);
- FRS 3 and the FRSSE (**10.6**);
- reporting the substance of transactions (**10.7**);
- 'related party' requirements (**10.8**);
- loans and transactions with directors (**10.9**);
- pensions and retirement benefits (**10.10**);
- foreign currency accounting (**10.11**);
- provisions and discounting (**10.12**);
- revenue recognition (**10.13**); and
- share based payments (**10.14**).

10.2.2 Small companies – true and fair view

Accounts are required under CA 2006 s. 393 to give a true and fair view within the accounting framework set out in the CA 2006.

Accounts drawn up in compliance with the FRSSE incorporating the requirements of SI 2008/409 Sch. 1 are deemed to be 'true and fair' as required under the small companies regime of the CA 2006. To achieve a true and fair view, regard must be had to the actual substance of any transaction or arrangement and adequate explanation made (e.g. in the notes to the accounts) of the treatment adopted.

Where there is doubt whether applying provisions of the FRSSE would be sufficient to give a true and fair view, adequate explanation shall be given in the notes to the transaction or arrangement concerned and the treatment adopted in order for the true and fair view requirement to be met.

10.2.3 Accounting standards and the FRSSE

While the principles of accounting standards explained in **Chapter 4** apply to companies generally, small companies can have regard to the single FRSSE covering all relevant accounting standards in one standalone document.

The FRSSE is designed to provide smaller entities (not just companies) with a single accounting standard that is focused on their particular circumstances. The FRSSE applies to all smaller entities (as defined) which prepare true and fair view accounts and which choose to adopt the FRSSE. Accounts complying with the SORP of a particular industry or sector should not, however, be prepared in accordance with the FRSSE, other than in the circumstances which are specified in the SORP.

With certain exceptions (for example small groups) exemption is granted from other accounting standards and UITF Abstracts. Nevertheless, in the absence of guidance on a particular accounting practice within the FRSSE itself, the ASB stated that the preparers and auditors of accounts of small entities should have regard to SSAPs, FRSSs and UITF Abstracts, not as mandatory documents, but as a means of establishing current accepted accounting practice.

Table 10.1 shows the effect for a small company of adopting the FRSSE. Small reporting entities applying the FRSSE are exempt from FRSSs or UITF consensus interpretations issued subsequent to the latest version.

14.3 Filing accounts with the Registrar of Companies

The Registrar of Companies is given authority under the CA 2006 to make rules governing the filing of documents at Companies House. These 'Registrar's Rules' are secondary legislation, made under section 1117 of the Act, and include the form, delivery and method of authentication for documents (including accounts) to be delivered to the Registrar.

The rules specify differing filing requirements for hard copy and electronic filings. For example, although the Companies Act requirement for an original signature to be included on the accounts that are filed was repealed as from 1 October 2009, signatures are still required by the Registrar's Rules to be included on balance sheets filed in paper form.

Furthermore, Companies House has recently reviewed its policy on filing documents with *original* signatures and has concluded that the Registrar of Companies will 'accept in good faith that documents presented for filing which have automatically generated signatures have been properly approved by the signatory'. And that 'documents will no longer be rejected simply because the signature does not appear to be original'.

www.companieshouse.gov.uk/about/policyDocuments/documentSignatures.shtml

A detailed list of the Registrar's Rules, including when amendments came into force, is available at:

www.companieshouse.gov.uk/about/policyDocuments/registrarRules/infoRegistrarsRules.shtml

The most significant recent change came into force on 30 November 2012 when Volume 1 of the Registrar's Rules 2009 (Documents delivered in electronic form) was revoked and the new *Registrar's (Electronic Form) Rules 2012 - Volume 1* came into force. Most recently, on 8 February 2013 a new WebFiling template for audit exempt abbreviated accounts has been added to Volume 1.

The rules contained in Volumes 2, 3, 4 and 5 of the Registrar's Rules 2009 (as amended) remain in force.

Table 14.1 The Registrar's Rules

The Registrar's Rules consist of the following five volumes:
Registrar's (Electronic Form) Rules 2012 Volume 1 – Documents delivered in electronic form;
Registrar's Rules 2009 Volume 2 – Documents delivered in paper form;
Registrar's Rules 2009 Volume 3 – Documents (or parts thereof) delivered on a CD-ROM or DVD-ROM;
Registrar's Rules 2009 Volume 4 – Informal correction of a document delivered to the registrar;
Registrar's Rules 2009 Volume 5 – Authentication of a certificate sent by the Registrar by electronic means.

14.3.1 Filing accounts in paper form

Of particular relevance to the filing of accounts on paper at Companies House are the following rules relating to registered number, signatures and the form and content of documents.

Table 14.2 Filing accounts at Companies House

The Registrar's (requirements for paper documents) Rules 2009

Registered number

Paragraph 22(3) of Volume 2 of the amended Registrar's Rules 2009 lists the documents (delivered on paper) which must contain the name and registered number of the company to which the document relates (but only one of the documents filed must show this information).

Only one of the following documents filed must contain the name and registered number of the company:

- copy of balance sheet or abbreviated accounts;
- (where applicable): copy of profit and loss account; copy of directors' report; or directors' remuneration report;
- copy of auditor's report.

The company name or registered number required as above must be in black typescript or handwritten in black ink in a 'prominent position' in the document filed; this does **not**, however, include, for example, the cover of an annual accounts package.

Table 14.2 Filing accounts at Companies House (cont'd)

Signature – the following documents (filed in paper form) must be signed by a director:

- copy of balance sheet;
- abbreviated accounts; or
- annual accounts.

The signature must be applied to the document in a prominent position, **at the end of the balance sheet**.

Form and content of documents:

Generally, paper documents sent to Companies House must state in a prominent position the registered name and number of the company. Paper documents must be:

- on A4 size, plain white paper with a matt finish (*note – Companies House does usually accept accounts on US letter sized paper and off-white paper as long as the document can be scanned legibly to A4*);
- **black**, clear and legible text, of uniform density; and
- clear and legible bold letters and numbers.

Documents should not be poor lettering or photocopies, carbon copies, or produced from a dot matrix printer (*note – as this may cause problems scanning the documents*).

14.3.1.1 Common reasons for accounts rejections at Companies House

In 2010, Companies House published a document listing the most common reasons why paper accounts had been rejected, which were:

- incorrect statements to the accounts, e.g. referring to the wrong Act (this was more common in 2010 due to the recent change from CA 1985 to CA 2006);
- filing accounts with the same date as previously filed accounts (see amended accounts below);
- signatory name missing on the balance sheet;
- balance sheet signature missing;
- audit exemption statements missing or incorrect; and
- accounting reference date (ARD)/made up date absent or incorrect.

www.companieshouse.gov.uk/about/pdf/commonAccountsRejections.pdf

In response to this, the ICAEW issued a document entitled 'Rejected Accounts' which gives guidance on preventing accounts being rejected by the Registrar:

www.icaew.com/en/technical/financial-reporting/other-reporting-issues/other-uk-regulation/briefing-on-companies-house-rejected-accounts-173847

If such accounts are submitted close to the filing deadline and the corrected accounts cannot be returned before the filing deadline expires, an automatic late filing penalty will be issued. There used to be a grace period of 14 days for accounts that were rejected near the deadline, however this ceased to exist on 1 October 2009.

14.3.2 Filing accounts in electronic form

There are four ways to file accounts electronically at Companies House.

- WebFiling;
- Filing of iXBRL accounts:
 - joint filing with HMRC;
 - electronic filing using enabled accounts production software;
 - electronic filing of iXBRL accounts using enabled company secretarial software or a third party web-based service.

14.3.2.1 WebFiling accounts

Companies House's WebFiling service allows the filing of a number of documents electronically, including (with some restrictions):

- dormant company accounts (DCA) AA02;
- audit exempt abbreviated accounts; and
- audit exempt full accounts.

Audited companies, Community Interest Companies (CIC) and Limited Liability Partnerships (LLP) cannot file annual accounts using the WebFiling service.

The Dormant Company Accounts (DCA) AA02 and the Audit Exempt Abbreviated Accounts are online WebFilings where the information is completed on screen.

Audit Exempt Full Accounts (and the Joint Filing Accounts for joint filing with HMRC – see below) are downloadable templates that are filled in then uploaded to Companies House.

Electronic filing is particularly useful if accounts are filed near to the filing deadline when there is invariably a risk of incurring penalties for late filing in the event that Companies House does not receive the document in time.

Table 14.3 sets out the process for the filing of accounts at Companies House via the WebFiling service.

Table 14.3 WebFiling

Paragraph 6 of Volume 1 of the Registrar's (Electronic Form) Rules 2012

- pre-registration of filing company's details with the Registrar;
- access to the internet;
- use of a security code and registered email address;
- use of a company authentication code.

Accounts delivered to the Registrar of Companies via WebFiling must be in the form of the template supplied for that purpose by the Registrar of Companies as part of the WebFiling facility.

Information must be input into the data input fields on the locally saved PDF copy of the template.

Paragraph 9(3) of Volume 1 of the Registrar's (Electronic Form) Rules 2012

- WebFiled accounts must be in form and substance copies of the actual annual accounts and reports or abbreviated or dormant accounts prepared for the company.

To use WebFiling the company must first register for this service on the Companies House website. WebFiling requires two codes for the submission of data for an individual company:

- a password to access the service (password is linked to the presenter's email address); and
- the Company's Authentication Code (CAC) which is the electronic equivalent of a company's officer's signature (CAC is linked to the company number).

The CAC must be requested via Companies House WebFiling page and it is sent by post to the company's registered office address.

Audit exempt full accounts filing via the WebFiling service uses a PDF template that registered users download and complete offline. A key feature of the template is that it contains in-built checks and help text which assists with avoiding the omission of key information and making calculation errors in the balance sheet and notes.

Once downloaded, the template prompts the user to make choices that define the content of the accounts. The accounts can then be completed offline over a period of time and saved drafts can then, for example, be emailed to colleagues or clients before submitting the final version to Companies House using a company 'authentication code'. The completed template is then saved on the computer as a locked copy of the accounts filed with Companies House.

These accounts are delivered to Companies House by:

- selecting the 'submit' or 'send' button found at the end of the locally saved electronic copy of the template;
- supplying the company's registered number and CAC when prompted; and
- supplying the presenter's email address when prompted.

The Dormant Company Accounts (DCA) AA02 and the audit exempt abbreviated accounts templates that cannot be downloaded must be completed online while the user is logged onto the WebFiling service. It is important to remember that the presenter of a company's accounts must act under the specific authority of that company's directors in delivering the accounts to the Registrar.

A document delivered using WebFiling is considered as received when it is given an envelope number by the Registrar.

14.3.2.2 Joint Filing of accounts with HMRC

The joint filing service which submits iXBRL tagged accounts online to both HMRC and to Companies House can be accessed through the HMRC Online Services page (linked also from the Companies House and gov.uk websites) to download the joint filing accounts template.

A Government Gateway user ID and password is required to access HMRC Online Services and additionally the Company's Authentication Code (CAC) must be entered into the template.

As with the WebFiling, online joint iXBRL filing templates are designed primarily for small audit exempt companies with relatively straightforward financial information.

The intelligent PDF accounts template enables the accounts data to be entered offline and to be saved or printed during completion. It has built-in checks which ensure that the calculations are correct and it also takes into account different filing deadlines thereby enabling timely submissions to both HMRC and Companies House.

The user can select whether they wish to submit full or abbreviated accounts to Companies House. The submission is done directly from the template (not via WebFiling).

If abbreviated accounts are sent to Companies House, this data is extracted from the full accounts data and the full accounts data is held within the template awaiting submission to HMRC.

When HMRC filing is due the full accounts data can be filed; this can be done months after filing accounts with Companies House.

14.3.2.3 Electronic filing of iXBRL accounts at Companies House

If the accounts production software being used produces UK GAAP accounts in iXBRL format then these can be filed directly with Companies House electronically.

The accounts can be filed either directly from the accounts production software (if the software includes this feature), or can be uploaded via an enabled company secretarial software package or third party web-based service.

Companies House maintains a list of suitable software packages at:

www.companieshouse.gov.uk/toolsToHelp/accountsSoftware.shtml

The software filing service enables the submission of the following:

- audit exempt full accounts;
- small abbreviated accounts;
- dormant company accounts; and
- audited individual full accounts with a standard auditor's report.

To file accounts using software a company will need a Companies House online filing presenter account (applied for via the Companies House website).

14.4 Filing amended accounts

If it is found that a set of accounts submitted to Companies House is defective (i.e. containing errors or not compliant with a requirement of the Companies Act), then the directors may submit amending financial statements to the Registrar of Companies. This may be because the company has realised that the accounts are defective or because the Registrar has written to the directors to request that they either give a satisfactory explanation for the accounts or prepare revised accounts.

The rules relating to revised accounts are set out in Part 15 of the CA 2006 (s. 454-459) and *The Companies (Revision of Defective Accounts and Reports) Regulations 2008* (SI 2008/373):

www.legislation.gov.uk/uksi/2008/373/contents/made

Revised accounts sent to Companies House must be marked as 'amending'. It is recommended that the 'amending' is very clearly marked (to prevent rejection by Companies House for being made up to the same date as a set of accounts that has previously been filed). The highlighting should not obscure any part of the accounts, however, as they could then be rejected if they do not scan legibly.

The amending accounts must contain the following statements (in a prominent position):

- the revised accounts replace the original accounts for the financial year (specifying it);
- the revised accounts are now the statutory accounts for that year; and
- the revised accounts have been prepared as at the date of the original accounts, and not as at the date of the revision and accordingly do not deal with events between those dates.

The accounts must also contain details (in a prominent position) of:

- the way in which the original accounts did not comply with the requirements of the CA 2006; and
- any significant amendments made as a result of correcting the defects.

SI 2008/373
part 2 Reg 4

If the original accounts were audited, the amending accounts must contain an audit report on the revised accounts. This report differs from the original report and includes statements of whether:

- in the auditor's opinion, the revised accounts have been properly prepared in accordance with the CA 2006;
- the revised accounts give a true and fair view to the individual balance sheet and profit and loss (consolidated in the case of group accounts), seen as at the date the original accounts were approved; and
- the original accounts failed to comply with the requirements of the CA 2006 in the respects identified by the directors.

SI 2008/373
part 2 Reg 5

Where a revised directors' report is prepared, the report must also state whether, in the auditor's opinion, the information given in that revised report is consistent with the accounts for the financial year.

If the previous set of accounts was not audited, but the revised set is found not to be exempt from audit, the company must also deliver an auditor's report to Companies House within 28 days after the date of revision of the accounts.

The original (defective) accounts will remain on the public record. Removing incorrect documents from the public record requires a court order (unless Companies House, in error, accepted an item which should have been rejected).

Companies House provides further guidance at:

www.companieshouse.gov.uk/infoAndGuide/fag/amendingAccounts.shtml

14.5 Filing accounts with HMRC

A UK Corporation Tax Return for a small limited company (preparing Companies Act or IAS individual accounts) includes form CT600, the accounts and the tax computation together with any accompanying information as required. This must be submitted to HMRC electronically. The accounts forming part of the return must be in iXBRL format (see 14.6 below).

iXBRL tagging of UK statutory financial statements has been required for tax purposes since 2011. It has been mandatory for organisations since accounting periods ending after 31 March 2010 and filing their tax return after 31 March 2011.

If the company chooses to file abbreviated accounts at Companies House, the full statutory accounts must be filed as part of the tax return.

A dormant company will not have to deliver a return unless it is sent a statutory notice to do so. In most cases, if HMRC has been notified that a company is dormant, no notice to deliver a return will be issued.

Overseas companies resident in the UK must deliver the accounts required by a notice to deliver a return in iXBRL. Also a company not resident in the UK, but carrying on a trade in the UK through a permanent establishment, branch or agency in the UK, must deliver any trading and profit and loss account and any balance sheet of the UK establishment, branch or agency required as part of its return in iXBRL format.