



Department
for Business
Innovation & Skills

**SIMPLER FINANCIAL REPORTING
FOR MICRO-ENTITIES: THE UK'S
PROPOSAL TO IMPLEMENT THE
'MICROS DIRECTIVE'**

Consultation

FEBRUARY 2013

Contents

Simpler Financial Reporting for Micro-entities.....	5
Who should read this consultation?.....	5
How to respond.....	6
Additional copies.....	7
Confidentiality & Data Protection	7
Help with queries	8
1. Executive Summary	9
2. Background.....	10
3. EU Definition of Micro-entity	11
4. UK implementation of the Micros-Exemption.....	11
4.2 Micros-Exemptions details and considerations.....	12
4.2.1. Exemption from the obligation to present “prepayments and accrued income” and “accruals and deferred income”	12
4.2.2. Exemption from the obligation to recognise “prepayments and accrued income” and “accruals and deferred income”	12
Considerations:.....	12
4.2.3. Exemption from the obligation to draw up notes to the accounts	13
Considerations:.....	13
4.2.4. Exemption from preparing an annual report	14
Considerations:.....	15
4.2.5. Exemption from the obligation to file a copy of the annual accounts	15
4.2.6 Abridged balance sheet and profit and loss account	15
5. Exclusions from the Micros Directive	17
6. Impact Assessment.....	17
7. Consultation questions.....	17

9. What happens next?	18
Annex A: The Consultation Code of Practice Criteria	19
Comments or complaints	19
Annex B: List of Individuals/Organisations consulted	20
Annex C: Simpler financial reporting for micro-entities response form	21
Question 1. Do you consider that the Government should implement all parts of the Micros-Exemption? If not, which of the exemptions do you see as providing the most benefit to micro-companies and why? (para 4.1).....	22
Question 2. Are there any costs or savings associated with the implementation of the Micros - Exemption that should be considered? Please provide examples, where possible. (para 4.1)	22
Question 3. Do you agree that removing the requirement to present prepayments and accrued income, and accruals and deferred income will reduce burdens in the preparation of the accounts for micro-entities? Please give reasons. (para 4.2.2).....	22
Question 4. Do you agree that removing the requirement to recognise charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax will reduce burdens in the preparation of accounts for micro-entities? Please give reasons. (para 4.2.2).....	23
Question 5. Would this approach have any implications in relation to micro-entities access to credit? (para 4.2.3)	23
Question 6. Should any of the existing notes on the accounts be retained in addition to the minimum set out in the Micros Directive? If so, which notes are required as an absolute minimum, and why? Would the benefits outweigh the costs associated with this? Please provide evidence. (para 4.2.3)	23
Question 7. If the notes identified in response to Question 6 will no longer be required of small companies on the implementation of the New Accounting Directive, should they be retained in the period between implementation of the Micros Directive and implementation of the New Accounting Directive and, if so, why? Would the benefits outweigh the costs? (para 4.2.3).....	24
Question 8. Do you agree that this is appropriate? Would the benefits outweigh the costs? Please provide evidence. (para 4.2.4)	24
Question 9. What do you consider to be the advantages and disadvantages of this approach? What are the potential cost savings this offers? Please provide evidence. (para 4.2.5).....	24
Question 10. If the above information is required to be filed in electronic format only, what do you consider to be the advantages and disadvantages to this approach? Would the benefits outweigh the costs? Please provide evidence (para 4.2.5).....	24
Question 11. What do you consider to be the cost savings associated with producing an abridged balance sheet and profit and loss account compared with the existing small company option to file	

an abbreviated balance sheet and profit and loss account? Please provide evidence. (para 4.2.6)
.....25

Appendix 126

Simpler Financial Reporting for Micro-entities

The European Union has recently defined a new category of company, the “micro-entity”. Micro-entities are very small companies, qualifying partnerships and qualifying limited partnerships.

In most cases micro-entities are engaged in business at a local or regional level, with limited cross-border activity. Micro-entities have an important role in creating employment, fostering research and development, and developing new economic activities.

However, micro-entities have limited resources to comply with demanding regulatory requirements. They are, generally, subject to the same financial reporting rules as other small entities¹. They can adopt the simpler requirements of the FRSSE (Financial reporting standards for smaller entities) which, although less complex than financial reporting requirements for larger companies, may actually place a burden on the very smallest of entities that is not proportionate to their size.

The Government is seeking to make changes to the Companies Act 2006, and to the accounting regulations made under that Act and under EU law to implement the EU Directive 2012/6/EU of the European Parliament and of the Council (“**the Micros Directive**”). It would also make comparable changes to the accounting framework for Limited Liability Partnerships

The Micros Directive provides an exemption (“**the Micros-Exemption**”) for micro-entities from certain financial reporting requirements otherwise applicable to small undertakings². The Micros-Exemption takes the form of a Member State option to exempt micro-entities from certain obligations that may impose unnecessarily onerous administrative burdens. The full text of the Directive can be found at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:081:0003:0006:EN:PDF>

This consultation seeks views on the proposed options for implementation of the Micros-Exemption.

Who should read this consultation?

We welcome views from a wide range of stakeholders, in particular, small companies, limited liability Partnerships (LLPs), qualifying partnerships preparing their accounts in accordance with the Partnerships (Accounts) Regulations 2008, preparers, auditors and users of statutory

¹ Small entities classed as satisfying any 2 of the 3 criteria – turnover below £6.5m, balance sheet total £3.26m, fewer than 50 employees.

² The new Accounting Directive currently under negotiation will update terminology describing various types of companies and entities subject to EU accounting legislation as ‘**Undertakings**’. This includes public companies limited by shares or by guarantee, private companies limited by shares or by guarantee, partnerships, limited partnerships and unlimited companies.

accounts, professional accountancy bodies and intermediaries representing business organisations.

Issued: **27 February 2013**

Respond by: **Friday, 22 March 2013**

This shorter consultation builds on the joint BIS and Financial Reporting Council discussion paper on 'Simpler Reporting for the Smallest Businesses', issued in August 2011, which sought views from a wide range of stakeholders over a 12 week period. It is our intention to issue draft regulations for further consultation.

Enquiries to: Angela Rabess,
Alternatives to Regulation Team
Department for Business, Innovation and Skills
3rd Floor, Spur 2
1 Victoria Street
London
SW1H 0ET
Tel: 020 7215 1661
Email: angela.rabess@bis.gsi.gov.uk

This consultation is relevant to companies, partnerships, preparers of financial accounts, professional bodies and users of companies' financial information.

How to respond

When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear whom the organisation represents by selecting the appropriate interest group on the consultation form and, where applicable, how the views of members were assembled.

A copy of the Consultation Response form is enclosed, or available electronically at https://www.gov.uk/government/uploads/system/uploads/consultation_response_form_data/file/16/13-626rf-simpler-financial-reporting-for-micro-entities-consultation-response-form.doc (until the consultation closes). If you decide to respond by using the Consultation Response form, the form can be submitted by letter or email to:

Angela Rabess
Alternatives to Regulation Team
Department of Business, Innovation and Skills
Spur 2, 3rd Floor
1 Victoria Street
London SW1
Tel: 020 7215 1661
Email: angela.rabess@bis.gsi.gov.uk

A list of those organisations and individuals consulted is in Annex B. We would welcome any suggestions from the organisations and individuals listed concerning others who may wish to be involved in this consultation process.

Additional copies

You may make copies of this document without seeking permission. An electronic version can be found at:

<https://www.gov.uk/government/consultations/simpler-financial-reporting-for-micro-entities-the-uks-proposal-to-implement-the-micros-directive>

Other versions of the document in Braille, other languages or audio-cassette are available on request.

Confidentiality & Data Protection

In the interests of transparency, the Department may choose to publish the responses to this consultation. Please state clearly if you wish your response to remain confidential.

Please note that information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Help with queries

Questions about the policy issues raised in the document can be addressed to:

Angela Rabess
Department of Business, Innovation and Skills
Spur 2, 3rd Floor
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 1661
Email: angela.rabess@bis.gsi.gov.uk

A copy of the Code of Practice on Consultation is in Annex A.

1. Executive Summary

1.1 The Government's overall objective is to support growth and encourage enterprise, whilst reducing unnecessary burdens on businesses. The European Union has recently defined a new category of undertaking, the micro-entity, and recognised that micro-entities may face different challenges from other small undertakings. In many cases micro-entities are engaged in business at a local or regional level, with limited cross-border activity. Micro-entities have an important role in creating employment, fostering research and development, and developing new economic activities.

1.2 However, micro-entities have limited resources to comply with demanding regulatory requirements. Currently, micro-entities are subject to the same financial reporting rules as other smaller undertakings which place a burden on them that is not proportionate to their size. That is why changes are proposed to the financial reporting requirements placed on micro-entities. The changes will give micro-entities a further choice when deciding what level of financial reporting (and disclosure) is appropriate to their business requirements.

1.3 For the avoidance of doubt, micro-entities will still have the choice to prepare small company accounts, and to file abbreviated accounts in accordance with the small company regime. It will be for owners/directors of micro-entities to consider the form of accounts that best suit their business needs.

1.4 The Micros Directive defines a micro-entity as an undertaking which, on its balance sheet date, does not exceed the limits of two of the following three criteria:

Balance sheet total: £289,415 (€350,000)³

Net turnover: £578,830 (€700,000)

Average number of employees during the financial year: 10 (or fewer)

1.5 Subject to certain conditions, the Micros Directive permits Member States to relieve micro-entities, from the obligations to:

- present "prepayments and accrued income" and "accruals and deferred income"*
- recognise certain types of "prepayments and accrued income" and "accruals and deferred income"*
- draw up notes to the accounts*
- prepare an annual report*
- publish annual accounts provided the financial data information contained in balance sheet items is filed with a designated competent authority.*

³ The exchange rate of €1=£0.82690 is that published in the Official Journal of the European Union as at the date of the Micro Directive's entry into force 10th April 2012 (2012/C 103/02)

*Full text can be found at Appendix 1

1.6 Member States may also permit micro-entities to draw up a greatly abridged balance sheet and profit and loss accounts.

1.7 Accounts that are drawn up in accordance with the requirements applicable to micro-entities will be deemed to give a true and fair view of the undertaking's financial position.

1.8 The Government is seeking views on how best to implement the Micros-Exemption so as to maximise the benefits to the UK's micro-entities of the flexibilities offered by the Micros Directive.

1.9 This consultation document has been sent to stakeholders (listed in Annex B) to obtain views. However, the Government welcomes a wide range of comments on the proposals set out in this document. The responses will be used to determine which of the identified options will provide UK micro-entities the greatest benefit, whilst reducing burdens and supporting growth.

2. Background

2.1 In the *Plan for Growth*⁴ published in March 2011, the Government set out its ambition "to make the UK one of the best places in Europe to start, finance and grow a business". It identified that this could be achieved in part by lessening the domestic regulatory burden on business.

2.2 The Micros Directive provides a Micros-Exemption from certain EU obligations relating to the preparation and publication of annual financial statements and so eases burdens on the very smallest undertakings. The UK strongly supports the Micros-Exemption, which sets an important precedent in EU legislation. The Micros-Exemption will benefit a significant number of UK companies⁵ and the intention is to implement the Micros Directive as soon as possible. A key benefit of the Micros Directive is that it will simplify the regulatory regime for the smallest undertakings.

2.3 Current reporting requirements on companies are intended to address information needs that exist between the principal (shareholder) and agent (manager) when there is a separation between ownership and control. In the case of micro-entities, there is often no such separation of control. That is because micro-entities are, in many instances, effectively owner-managed. Statutory financial statements of micro-entities are therefore not necessary for communication between the shareholders and management of the business on the company's performance.

⁴ http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

⁵ There are roughly 1.2 million micro-companies in the UK (accurate statistical information is currently limited in respect of these companies) as compared with a total number of companies on the UK register of approximately 2.8 million. Therefore, micro-companies are of key importance in terms of economic growth.

For the smallest of companies the costs associated with financial reporting requirements may be disproportionate to the value obtained from the production of the financial statements.

2.4 Micro-entities are often owner-managed and finance tends to be from owner resources with external finance being provided by banks and other financial institutions (such as leasing companies). Owner-managers do not rely on the published financial statements. Similarly external providers of finance are able to request specific information and will often require more current financial information than that publicly available.

2.5 While not subject to the Companies Act 2006 directly, the UK applies the financial reporting requirements in Part 15 and Chapter 1 of Part 16 of the Companies Act 2006 to qualifying Partnerships. We also apply the requirements to Limited Liability Partnerships (LLPs) with an ongoing policy of maintaining a framework for LLPs so that it continues to be comparable to that for UK companies. However LLPs are not themselves subject to the EU Directives. However, the intention is to provide similar exemptions for all these entities in the same way.

3. EU Definition of Micro-entity

3.1 A micro-entity is an undertaking which, on its balance sheet date, does not exceed the limits of two of three criteria:

- Balance sheet total: £289,415 (€350,000)⁶
- Net turnover: £578,830 (€700,000)
- Average number of employees during the financial year: 10

4. UK implementation of the Micros-Exemption

4.1 The Government is minded to implement changes to legislation to enable the smallest UK undertakings to take advantage of the flexibilities offered by the Micros-Exemption.

The Micros Directive allows Member States to implement any or all of the various parts of the Micros-Exemption. Therefore, we are seeking views in relation to each part of the Micros-Exemption with a view to determining the correct approach to the implementation of it in the UK.

⁶ The exchange rate of €1=£0.82690 as applied on the date of Directive's entry into force.

Question 1. Do you consider that the Government should implement all parts of the Micros-Exemption? If not, which of the parts do you see as providing the most benefit to micro-entities and why?

Question 2. Are there any costs or savings associated with the implementation of the Micros -Exemption that should be considered? Please provide examples, where possible.

4.2 Micros-Exemptions details and considerations

4.2.1. Exemption from the obligation to present “prepayments and accrued income” and “accruals and deferred income”

The Micros Directive explains that the calculation of prepayments and accrued income, and accruals and deferred income can be burdensome for micro-entities. Therefore, micro-entities should be exempt from presenting such items. This part of the Micros–Exemption should be considered in conjunction with the second part relating to the recognition of certain types of “prepayments and accrued income” and “accruals and deferred income” (see section 4.2.2).

4.2.2. Exemption from the obligation to recognise “prepayments and accrued income” and “accruals and deferred income”

This part of the Micros –Exemption exempts micro-entities from recognising charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax as “prepayments and accrued income” or “accruals and deferred income”. Where this option is exercised, Micro- entities will be required to disclose that fact in the notes on the accounts or (if the exemption from the requirement to draw up notes to the accounts is implemented) at the foot of the new abridged balance sheet.

Considerations:

The option outlined in 4.2.1 is expected to simplify the preparation of the financial statements, thereby reducing the costs associated with calculating and presenting these items in the balance sheet.

However, further consideration is required in relation to appropriate accounting standards where accounts are prepared using this exemption. Therefore, it is not clear what level of administrative burden will be relieved or potential savings may be made by micro-entities if the UK exercises this option.

A further issue is that, if this exemption is implemented, the figures in the accounts will be prepared in different ways, using both accruals and the ‘cash’ basis methods.

It may also be necessary to maintain a separate record of accruals/prepayments (a) in order to make distributions and to know that the company is solvent (this is because dividends, generally, can only be paid out of realised profits) and (b) so that accruals and prepayments which are still required to be recognised in the accounts (i.e. the cost of raw materials and consumables, value adjustments, staff costs and tax mentioned in 4.2.2) can be recognised.

Question 3. Do you agree that removing the requirement to present prepayments and accrued income, and accruals and deferred income will reduce burdens in the preparation of the accounts for micro-entities? Please give reasons.

Question 4. Do you agree that removing the requirement to recognise charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax will reduce burdens in the preparation of accounts for micro-entities? Please give reasons.

4.2.3. Exemption from the obligation to draw up notes to the accounts

The Companies Act 2006 and regulations made under that Act set out the requirement to draw up notes to the accounts, and explains the type of information that should be contained in those notes. This part of the Micros-Exemption exempts micro-entities from the requirement to draw up notes to the accounts provided that certain information is disclosed at the foot of the new abridged balance sheet format, as follows. (See Appendix 1 for full details)

- All commitments by way of guarantees of any kind
- Advances and credits to directors including guarantees and commitments entered into on their behalf
- Acquisition of own shares

Considerations:

In many micro-entities ownership and control are not separated as in the case of larger companies, as many of these micro-entities are owner-managed. Therefore, micro-entities financial statements are not necessary for communication between the shareholders and management of the business on the company's performance. Finance for many micro-entities tends to be sourced from owner resources with external finance being provided by banks and other financial institutions (such as leasing companies). Owner-managers do not rely on the published financial statements. Similarly external providers of finance are able to request specific information and will often require more current financial information than is publicly available.

The changes will result in a different type of published financial information being available to a wide range stakeholders and creditors. These stakeholders and creditors may need to rely on other means of obtaining more detailed financial data, which in turn could result in some additional costs to those stakeholders seeking that information and companies having to provide it.

As noted in paragraph 2.5, the intention is to extend exemptions to qualifying partnerships and Limited Liability Partnerships. We are not aware of any specific issues in relation to these entities.

Question 5. Would this approach have any implications in relation to micro-entities access to credit?

There are on-going discussions on a proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (**the New Accounting Directive**). It will set minimum requirements for small company notes on the accounts, which if agreed Member States will be unable to exceed. It is envisaged that there will be a need for some alignment of any notes that are retained with this framework. Full details of the proposal can be viewed at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0684:EN:NOT>

Question 6. Should any of the existing notes on the accounts be retained in addition to the minimum set out in the Micros Directive? If so, which notes are required as an absolute minimum, and why? Would the benefits outweigh the costs associated with this? Please provide evidence.

Question 7. If the notes identified in response to Question 6 will no longer be required of small companies on the implementation of the New Accounting Directive, should they be retained in the period between implementation of the Micros Directive and implementation of the New Accounting Directive and, if so, why? Would the benefits outweigh the costs?

4.2.4. Exemption from preparing an annual report

The Micros Directive exempts micro-entities from the requirement to prepare an annual report, as required by Article 46 of the 4th Accounting Directive, provided that information in relation to the acquisition of own shares is disclosed at the foot of the abridged balance sheet. The disclosure of such information at the foot of the balance sheet is also a condition of the Micros-Exemption above from the requirement to draw up notes to the accounts (see paragraph 4.2.3, third bullet).

The Companies Act 2006 and regulations made under that Act currently provide for information in relation to the acquisition of own shares to be included in the Directors' Report, which

captures all of the elements of the annual report and, in addition, contains a number of other disclosures⁷. This part of the Micros-Exemption would relate to all the current requirements of the Fourth Directive in relation to the contents of the annual report.

Considerations:

To avoid duplication we propose to remove the requirement for micro-entities to disclose the acquisition of own shares from the Directors' Report. Micro-entities would, therefore, be required to prepare and send a copy of its Directors' report to members of the company, but not file the Directors' Report, which includes the names of directors and principal activities of the company.

Question 8. Do you agree that this is appropriate? Would the benefits outweigh the costs? Please provide evidence.

4.2.5. Exemption from the obligation to file a copy of the annual accounts

The Government's view is that the Micros Directive allows micro-entities to submit financial data in the format that the company thinks is most appropriate, instead of having to file the information in the fixed form of a copy of the Balance Sheet. This would mean micro-entities would supply only the line items in the new abridged balance sheet preceded by a capital letter.

Question 9. What do you consider to be the advantages and disadvantages of this approach? What are the potential cost savings this offers? Please provide evidence.

Question 10. If the above information is required in electronic format only, what do you consider to be the advantages and disadvantages to this approach? Would the benefits outweigh the costs? Please provide evidence.

4.2.6 Abridged balance sheet and profit and loss account

The Micros-Exemption permits micro-entities to use an abridged balance sheet, and profit and loss account

There would be a choice of balance sheet formats. The abridged balance sheet must consist of at least the following items.

⁷Under the Governments proposals on narrative reporting certain information currently contained in the Directors' Report may migrate to a new Strategic Report. The analysis in relation to micro-entities will not be affected by that development.

Format 1	Format 2
A. Called up share capital not paid	
B. Fixed assets	Assets
C. Current assets	
D. Creditors: amounts falling due within one year	A. Called up share capital not paid
E. Net current assets (liabilities)	B. Fixed assets
F. Total assets less current liabilities	C. Current assets
G. Creditors: amounts falling due after more than one year	Liabilities
H. Provisions for liabilities	
I. Capital and reserves	A. Capital reserves
	B. Provisions for liabilities
	C. Creditors

The practical effect of these changes is a shorter, less detailed balance sheet which focuses on key financial information relating to the undertaking's performance.

Similarly, the abridged profit and loss account is greatly shortened to present key financial data. The abridged profit and loss account will show separately at least the following items, where applicable:

- (i) net turnover
- (ii) other income
- (iii) cost of raw materials and consumables
- (iv) staff costs
- (v) value adjustments
- (vi) other charges
- (vii) tax
- (viii) profit or loss

Accounts prepared in accordance with the requirements relating to micro-entities will be deemed to give a true and fair view of the undertaking's financial position. Further consideration will be given to appropriate accounting standards.

Question 11. What do you consider to be the cost savings associated with producing an abridged balance sheet and profit and loss account compared with the existing small company option to file an abbreviated balance sheet and profit and loss account? Please provide evidence.

Wider comments are welcomed on the proposed options. In particular, any unintended consequences or other implications that may arise from the proposals, with supporting evidence and any further recommendations for change

5. Exclusions from the Micros Directive

5.1 Companies currently excluded from the UK small company regime will also be excluded from the Micros-Exemption (in addition to investment companies or financial holding companies). Please see more detailed information at Appendix 1.

6. Impact Assessment

The proposed changes are deemed to be deregulatory, and are subject to the Government's streamlined approach for legislation that removes costs and burdens to business. Therefore a consultation stage impact assessment is not attached to this document.

However, a final stage impact assessment incorporating consultation responses and costs will be published with the Government response.

7. Consultation questions

The questions asked in this consultation document are as follows:

Question 1. Do you consider that the Government should implement all parts of the Micros-Exemption? If not, which of the parts do you see as providing the most benefit to micro-entities and why?

Question 2. Are there any costs or savings associated with the implementation of the Micros-Exemption that should be considered? Please provide examples, where possible.

Question 3. Do you agree that removing the requirement to present prepayments and accrued income, and accruals and deferred income will reduce burdens in the preparation of the accounts for micro-entities? Please give reasons.

Question 4. Do you agree that removing the requirement to recognise charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax will reduce burdens in the preparation of accounts for micro-entities? Please give reasons.

Question 5. Would this approach have any implications in relation to micro-entities access to credit?

Question 6. Should any of the existing notes on the accounts be retained in addition to the minimum set out in the Micros Directive? If so, which notes are required as an absolute minimum, and why? Would the benefits outweigh the costs associated with this? Please provide evidence.

Question 7. If the notes identified in response to Question 6 will no longer be required of small companies on the implementation of the New Accounting Directive, should they be retained in the period between implementation of the Micros Directive and implementation of the New Accounting Directive and, if so, why? Would the benefits outweigh the costs?

Question 8. Do you agree that this is appropriate? Would the benefits outweigh the costs? Please provide evidence.

Question 9. What do you consider to be the advantages and disadvantages of this approach? What are the potential cost savings this offers? Please provide evidence.

Question 10. If the above information is required in electronic format only, what do you consider to be the advantages and disadvantages of this approach? Would the benefits outweigh the costs? Please provide evidence.

Question 11. What do you consider to be the cost savings associated with producing an abridged balance sheet and profit and loss account compared with the existing small company option to file an abbreviated balance sheet and profit and loss account? Please provide evidence.

Wider comments are welcomed on the proposed options. In particular, any unintended consequences or other implications that may arise from the proposals, with supporting evidence and any further recommendations for change.

9. What happens next?

Following this consultation the Government will consider the comments received and announce final proposals in Spring 2013. Subject to parliamentary timetable, the Government will bring forward secondary legislation to give effect to these proposals.

Annex A: The Consultation Code of Practice Criteria

1. Formal consultation should take place at a stage when there is scope to influence policy outcome.
2. Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Comments or complaints

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

John Conway,
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone John on 020 7215 6402
or e-mail to: john.conway@bis.gsi.gov.uk

Annex B: List of Individuals/Organisations consulted

Attached is a list of all those who are being consulted

Association of Chartered Certified Accountants (ACCA)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institute of Chartered Accountants of Scotland (ICAS)

Institute of Certified Bookkeepers

CBI

Federation of Small Businesses (FSB)

Financial Reporting Council (FRC)

Baker Tilly

Ernst and Young

PricewaterhouseCoopers



Department for Business, Innovation & Skills

Annex C: Simpler financial reporting for micro-entities response form

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is 22/03/2013

Name:

Organisation: (if applicable)

Address:

Please return completed forms to:

Angela Rabess

Department for Business, Innovation and Skills

3rd Floor, Spur 2

1 Victoria Street

London SW1H 0ET

Telephone: 020 7215 1661

Fax: 020 7215 0227

email: angela.rabess@bis.gsi.gov.uk

Impact Assessment

The proposed changes are deemed to be deregulatory, and are subject to the Government's streamlined approach for legislation that removes costs and burdens to business. Therefore a consultation stage impact assessment is not attached to this document.

However, a final stage impact assessment incorporating consultation responses and costs will be published with the Government response.

When replying to this consultation, please indicate in the box below which option best describes you as a respondent.

<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Central government
<input type="checkbox"/>	Charity or social enterprise

	Individual
	Large business (over 250 staff)
	Legal representative
	Local Government
	Medium business (50 to 250 staff)
	Small business (10 to 49 staff)
	Micro business (up to 9 staff)
	Trade union or staff association
	Other (please describe)

Question 1. Do you consider that the Government should implement all parts of the Micros-Exemption? If not, which of the parts do you see as providing the most benefit to micro-companies and why? (para 4.1)

A Yes No Other

Comments:

Question 2. Are there any costs or savings associated with the implementation of the Micros -Exemption that should be considered? Please provide examples, where possible. (para 4.1)

A Yes No Other

Comments:

Question 3. Do you agree that removing the requirement to present prepayments and accrued income, and accruals and deferred income will reduce burdens in the preparation of the accounts for micro-entities? Please give reasons. (para 4.2.2)

A Yes No Other

Comments

Question 4. Do you agree that removing the requirement to recognise charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax will reduce burdens in the preparation of accounts for micro-entities? Please give reasons. (para 4.2.2)

A Yes No Other

Comments:

Question 5. Would this approach have any implications in relation to micro-entities access to credit? (para 4.2.3)

A Yes No Other

Comments:

Question 6. Should any of the existing notes on the accounts be retained in addition to the minimum set out in the Micros Directive? If so, which notes are required as an absolute minimum, and why? Would the benefits outweigh the costs associated with this? Please provide evidence. (para 4.2.3)

Comments:

Question 7. If the notes identified in response to Question 6 will no longer be required of small companies on the implementation of the New Accounting Directive, should they be retained in the period between implementation of the Micros Directive and implementation of the New Accounting Directive and, if so, why? Would the benefits outweigh the costs? (para 4.2.3)

A Yes No Other

Comments:

Question 8. Do you agree that this is appropriate? Would the benefits outweigh the costs? Please provide evidence. (para 4.2.4)

A Yes No Other

Comments:

Question 9. What do you consider to be the advantages and disadvantages of this approach? What are the potential cost savings this offers? Please provide evidence. (para 4.2.5)

Comments:

Question 10. If the above information is required to be filed in electronic format only, what do you consider to be the advantages and disadvantages to this approach? Would the benefits outweigh the costs? Please provide evidence (para 4.2.5)

Comments:

Question 11. What do you consider to be the cost savings associated with producing an abridged balance sheet and profit and loss account compared with the existing small company option to file an abbreviated balance sheet and profit and loss account? Please provide evidence. (para 4.2.6)

Comments:

Wider comments are welcomed on the proposed options. In particular, any unintended consequences or other implications that may arise from the proposals, with supporting evidence and any further recommendations for change.

Please use this space for any general comments that you may have.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

Yes

No

Appendix 1

References:

Page 6:

Directive 2012/6/EU – Article 1 Amendments to Directive 78/660/EEC section (2)

Member States may exempt companies referred to in paragraph 1 from any or all of the following obligations:

(a) the obligation to present ‘Prepayments and accrued income’ and ‘Accruals and deferred income’ in accordance with Articles 18 and 21;

(b) where a Member State makes use of the option in point (a) of this paragraph, it may permit those companies, only in respect of other charges as referred to in point (b)(vi) of paragraph 3, to depart from Article 31(1)(d) with regard to the recognition of ‘Prepayments and accrued income’ and ‘Accruals and deferred income’, provided that this fact is disclosed in the notes on the accounts or, in accordance with point (c) of this paragraph, at the foot of the balance sheet;

(c) the obligation to draw up notes on the accounts in accordance with Articles 43 to 45, provided that the information required by Article 14 and point (13) of Article 43(1) of this Directive and Article 22 (2) of Directive 77/91/EEC is disclosed at the foot of the balance sheet;

(d) the obligation to prepare an annual report in accordance with Article 46 of this Directive, provided that the information required by Article 22(2) of Directive 77/91/EEC is disclosed in the notes on the accounts or, in accordance with point (c) of this paragraph, at the foot of the balance sheet;

(e) the obligation to publish annual accounts in accordance with Articles 47 to 50a, provided that the balance sheet information contained therein is duly filed, in accordance with national law, with at least one competent authority designated by the Member State concerned. Whenever the competent authority is not the central register, commercial register or companies register, as referred to in Article 3(1) of Directive 2009/101/EC, the competent authority is required to provide the register with the information filed.

Pages 9 and 11:

All commitments by way of guarantees of any kind

Accounting Directive 78/660/EEC, Article 14. - All commitments by way of guarantee of any kind must, if there is no obligation to show them as liabilities, be clearly set out at the foot of the balance sheet or in the notes on the accounts, and a distinction made between the various types of guarantee which national law recognises; specific disclosure must be made of any valuable security which has been provided. Commitments of this kind existing in respect of affiliated undertakings must be shown separately.

Advances and credits

Accounting Directive 78/660/EEC, Article 43(1) point (13). - The amount of advances and credits granted to the members of the administrative, managerial and supervisory bodies, with indications of the interest rates, main conditions and any amounts repaid, as well as commitments entered into on their behalf by way of guarantees of any kind, with an indication of the total for each category.

Acquisition of own shares

Second Council Directive 77/91/EEC. Article 22(2). - Where the laws of a Member State permit a company to acquire its own shares, either itself or through a person acting in his own name but on the company's behalf, they shall require the annual report to state at least:

(a) the reasons for acquisitions made during the financial year; (b) the number and nominal value or, in the absence of a nominal value, the accountable par of the shares acquired and disposed of during the financial year and the proportion of the subscribed capital which they represent; (c) in the case of acquisition or disposal for a value, the consideration for the shares; (d) the number and nominal value or, in the absence of a nominal value, the accountable par of all the shares acquired and held by the company and the proportion of the subscribed capital which they represent.

Definition of investment company and financial holding company

Accounting Directive 78/660/EEC. Article 53a. - Member States shall not make the exemptions set out in Articles 1a, 11, and 27, points (7a) and (7b) of Article 43(1) and Articles 46,47 and 51 available in respect of companies whose securities are admitted to trading on a regulated market within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC.

Web links

Directive 2012/6/EU of the European Parliament and of the Council of 14 March 2012 amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities (known as the 'Micros Directive')

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:081:0003:0006:EN:PDF>

Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) (known as the 'Fourth Accounting Directive' and 4th Company Law Directive). Consolidated version incorporating the Micros-Exemptions.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1978L0660:20120410:EN:PDF>

Second Council Directive 77/91/EEC of 13 December 1976

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31977I0091:EN:HTML>

Directive 2009/101/EC of the European Parliament and of the Council of 16 September 2009

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:258:0011:0019:EN:PDF>

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:145:0001:0001:EN:PDF>

Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (**the New Accounting Directive**)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0684:EN:NOT>

© Crown copyright 2013

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. Visit www.nationalarchives.gov.uk/doc/open-government-licence, write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email psi@nationalarchives.gsi.gov.uk.

This publication is also available on our website at www.bis.gov.uk

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

BIS/13/626