Department for Business Innovation & Skills

UK IMPLEMENTATION OF EU ACCOUNTING DIRECTIVE

Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit

RESPONSE FORM

AUGUST 2014

UK Implementation of the EU Accounting Directive – Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit

Consultation 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 24 October 2014

Name:
Organisation (if applicable): ICAS, The Institute of Chartered Accountants of Scotland
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Please return completed forms to:
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Corporate Frameworks, Accountability and Governance
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Email: Accounting_Directive@bis.gsi.gov.uk

Please tick a box from the list below that best describes you as a respondent.

X	Business representative organisation/trade body
	Non-government standard setting/regulatory body
	Charity or social enterprise
	Individual
	Large business (over 250 staff)
	Legal representative
	Local Government
	Medium business (50 to 250 staff)
	Micro business (up to 9 staff)

	Small business (10 to 49 staff)
	Trade union or staff association
	Other (please describe)

SECTION 6. The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the UK's existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced? *(Paras 6.3-6.4)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We agree that the government should maintain its existing approach to financial reporting which has served the UK well for many years. There have been a number of changes to financial reporting in a short period i.e. the introduction of the micro-entity accounts regulations, the forthcoming mandatory introduction of the new UK GAAP framework, and the implementation of this EU Accounting Directive, therefore further changes should not be sought. Furthermore, there is a relatively short timescale for the implementation of the Directive which makes consideration of any further changes impractical.

Question 2: Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies? *(Para 6.7)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We believe it is sensible to provide discrete regulations for small companies and for large and medium-sized companies. It is more efficient for small companies to be able to look directly to specific regulations rather than for the requirements for all sizes of company to be located in one place.

Question 3: Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place? *(Para 6.8)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

It would be helpful for the regulations for small companies and micro-entities to be set out in one place, as this will be clearer and more understandable. Such an approach would be particularly helpful to smaller businesses.

Question 4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver. *(Para 6.8)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

We have no further suggestions in this respect.

SECTION 7. Timetable for implementation

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016? *(Para 7.1)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

This is the most appropriate date given the required implementation timetable.

Question 6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016? *(Para 7.2)*

X☐ Yes ☐ No ☐ Not sure

Please provide an explanation for your position. In particular, we would welcome information about the costs/benefits associated with your preferred option:

It is important that early adoption is available, in view of the fact that the new UK GAAP regime is applicable for accounting periods beginning one year earlier i.e. on or after 1 January 2015. Given that the Directive proposes to increase the small company threshold for accounting purposes, this could mean that companies who currently do not qualify as small, but will do so under the new Directive could be required to apply full UK GAAP for one year, before being able to apply the anticipated reduced disclosure FRS 102 small company requirements the following year. This could be complex and costly for the companies, and could be confusing for users of those companies' accounts, who would see a company produce three different types of financial statements in three consecutive years. It will also make it easier for those advising such companies to explain the Government's approach.

SECTION 8. The Proposal

Question 7: Do you agree with the Government's proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime? *(Para 8.10)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

We support the concept of 'think small first' and believe that financial reporting requirements and regulations should be proportionate to the size and complexity of the entity. However, it also important to recognise the value of financial reporting to smaller companies: it helps create financial discipline to underpin business success and provides financial transparency which assists access to funding and credit.

We are concerned that the proposed increased threshold will mean that reasonably substantial businesses may now be able to file abbreviated financial statements, which provide very little useful information to users. Companies at the higher end of the 'small' category are likely to have an impact in the communities they serve which means there is a significant local interest in their activities. This interest is not well-served by the publication of abbreviated accounts. We believe that continually increasing the small company thresholds poses a risk to the quality of financial information and therefore for the economic prospects for smaller businesses.

Question 8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.) *(Para 8.10)*

Cost savings for stand-alone companies, that are currently medium-sized but which following the proposed changes will be small, will in our view be minimal. Greater cost savings will however be applicable to any parent companies which become able to take advantage of the small company financial reporting regime as they will be relieved of the requirement to have to prepare consolidated accounts for the group which they head. It is not possible to provide any actual amounts as the cost savings for such parent companies will vary from entity to entity and depend on factors such as the number of subsidiary undertakings in the group. One of course can question whether there is a cost to such a parent company in not having consolidated accounts of its operations available for assessment, whether that be for the purposes of the directors of the entity/shareholders or for external providers of finance.

Question 9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees? *(Para 8.12)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We believe the existing approach to measuring a company's size is well-understood, and results in the appropriate categorisation in almost all circumstances.

Question 10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size? *(Para 8.12)*

☐ Yes X☐ No ☐ Not sure

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise. Information about the number of companies affected would be useful in assessing the impact of any change:

We can think of very few situations in which using turnover would provide the wrong answer in terms of determining company size. Turnover is a stable and well-understood basis, whilst using another measure in certain situations could add complexity and volatility to the process.

Question 11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

(a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or
(b) "affiliated undertakings" to calculate their thresholds on a consolidated or aggregated basis?

☐ Yes X☐ No ☐ Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

We believe the current framework is appropriate.

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions? *(Para 8.13)*

☐ Yes X☐ No ☐ Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

As above, we believe the current framework is appropriate in this respect.

Question 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18? *(Para 8.19)*

X☐ Yes ☐ No ☐ Not sure

If no, please provide an explanation, indicating which, if any, of the five notes you believe should be mandatory for small companies:

We strongly agree with the Government position to require the additional five notes. It is a concern to us that the new approach to small company accounts is too prescriptive and may to some preparers appear to restrict the number of note disclosures. This approach risks negatively impacting the quality of such accounts as it puts more onus on individual companies to consider whether the mandated notes provide a true and fair view, or whether additional disclosures are required which is likely to be the case for many companies. This could result in reduced consistency and quality in the extent to which additional notes are provided. Therefore we believe it is imperative that the Government requires the full 13 mandatory notes.

Question 14: Should the requirement for these additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? *(Para 8.19)*

X☐ Yes ☐ No ☐ Not sure

Please provide any information to support your views:

The requirement for the additional notes should be set out in regulations as this makes the authoritative status of the requirement clearer.

Question 15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish? *(Para 8.21)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

We do not see any merit in the preparation of an abbreviated balance sheet and profit and loss account. We believe that abbreviated accounts provide little useful information, and therefore it would not be in the interests of small companies or in the

wider public interest to permit such accounts to be prepared for shareholders. Therefore we do not support any further simplifications. We also draw reference to the ICAS research undertaken on abbreviated accounts in 2011 which can be viewed at: http://icas.org.uk/kitching/.

Question 16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company's financial position? Please explain. *(Para 8.21)*

All of the existing line items may be essential to support the presentation of a true and fair view, dependent on the circumstances.

Question 17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? Evidence in support of your views would be helpful *(Para 8.21)*

We do not think there will be any benefits to a small company in preparing an abbreviated balance sheet and P&L. In fact, we believe there may be additional costs, as it appears that such company could effectively need to produce three sets of accounts if for example a lender demanded more financial information to be made available by the entity.

Question 18: What benefits do you believe exempting small groups from consolidation will offer to small groups of companies? Evidence in support of your views would be helpful *(Para 8.22)*

For those impacted, this will have the benefit of reducing the cost of accounts preparation if consolidated accounts are no longer required.

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market? *(Para 8.24)*

☐ Yes X☐ No ☐ Not sure

Please explain. If no, are there <u>any</u> types of public companies (other than those whose trading securities are traded on a regulated market) which should be allowed to access the small company regime (and why)?

Owners of businesses have the choice to decide which type of business vehicle they wish to utilise for their business venture. If they decide to have a corporate structure

then the choice is generally between incorporating the entity as a private limited company (most common) or a public limited company. The law currently recognises that public limited companies have the ability to seek funds from the general public and therefore places greater requirements on such entities in the public interest. We see no reason to deviate from this existing approach.

Additionally, only excluding those public companies whose securities are traded on a regulated market could conflict with the AIM rules, which require the preparation of IFRS financial statements, despite not being a regulated market.

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime? *(Para 8.25)*

☐ Yes ☐ No X☐ Not sure

Please explain. If no, are there any circumstances in which other small companies within a group which includes a public company should be allowed to access the small company regime (and why)?

We believe there could be merit amending the rules regarding small companies who are members of a group which includes a public company. The current situation creates unnecessary complexity as companies may be exempted from the small company regime simply because, for example, they are a member of group that has contained a single public company at one point during the financial year.

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market? *(Para 8.26)*

☐ Yes X☐ No ☐ Not sure

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) who should be allowed to access the medium-sized companies regime (and why)?

Our reasoning is as stated above in our response to question 19.

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime? *(Para 8.26)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We agree, for the same reasons as stated in our response to question 20, although in practice there will be very little impact, given that there are very few exemptions remaining for medium-sized companies.

Question 23: Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities traded on a regulated market rather than because they are quoted companies? *(Para 8.27)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

The treatment should be consistent with that for small companies.

b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purposes of the small companies accounting regime? *(Para 8.27)*

X☐ Yes ☐ No ☐ Not sure

Please provide any information in support of your answer:

This is consistent with the treatment for small companies.

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies? *(Para 8.29)*

X☐ Yes ☐ No ☐ Not sure

If no, please provide an explanation for the impact (for example, which companies and in what circumstances) and what its effects might be. Any evidence of the cost of the impact would be welcome.

The proposed deletion of Formats 3 and 4 will not have a significant impact on UK companies.

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)? *(Para 8.30)*

X☐ Yes ☐ No ☐ Not sure

Please provide any information in support of your views here including any cost and benefits of providing greater flexibility in the use layouts.

If sector-specific layouts are suggested, please can you provide information on the need for such a layout within the sector, the issues the standard layouts currently present to that sector and the nature and value of any benefits greater flexibility might bring.

While we believe that standardised financial statement formats assist comparability, consistency and understandability, we note it could be of benefit to introduce a certain degree of flexibility in the layouts. In particular, the layouts could be flexible enough to accommodate IFRS financial statement formats which would enable groups containing companies reporting under UK GAAP and IFRS to adopt a consistent format across all companies. However, care would need to be taken to ensure the correct balance between flexibility and comparability of layouts.

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why? *(Para 8.30)*

☐ Yes ☐ No X☐ Not sure

Please provide information in support of your answer:

If the option were adopted, we believe that flexibilities should be dealt with in the regulations, as this makes their status clear.

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements? *(Para 8.33)*

☐ Yes X☐ No ☐ Not sure

Please provide any information in support of your views, including any costs and benefits of allowing this option:

We do not believe that this change is relevant to UK companies, and is not justified under UK accounting standards.

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive? *(Para 8.36)*

X☐ Yes ☐ No ☐ Not sure

Please provide any information in support of your views, including any reasons that the period should be kept to 5 years, or to any alternative period:

We agree the Government should provide for the 10 year maximum period for write-off as we believe the 5 year maximum is viewed as restrictive, and not in keeping with standard accounting practice in the UK. This change should take effect alongside the other changes to the UK's financial reporting framework to avoid two changes in quick succession.

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework? *(Para 8.38)*

X☐ Yes ☐ No ☐ Not sure

If no, please provide an explanation and indicate when the change should be effective and what the reasons are for this:

Question 30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change? *(Para 8.42)*

X☐ Yes ☐ No ☐ Not sure

If no, please provide information in support of your view and the value that the Directors' Report offers to a micro-entity company:

There will be little impact as there is currently very little information provided in a micro entity Directors' Report.

SECTION 9: Implications for the UK's Approach to Statutory Audit

Question 31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time? *(Para 9.5)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We are supportive of this proposal. Our rationale is consistent with that stated in our response to question 7 on the raising of the small company thresholds. Raising the audit exemption threshold would allow fairly sizeable companies to have no external assurance on their financial statements.

Question 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market? *(Para 9.10)*

☐ Yes X☐ No ☐ Not sure

If no, are there any types of public company (other than those with securities admitted to trading on a regulated market) which should be allowed to access the small companies audit exemption?

We do not believe that any public companies should be entitled to audit exemption. Additionally, this change could result in AIM companies falling within the definition of a small company which does not make sense.

b) Small companies are only excluded if they are part of an "ineligible group" under this definition as amended for the purpose of implementing changes to the small companies accounting regime? *(Para 9.10)*

☐ Yes X☐ No ☐ Not sure

If no, are there any circumstances in which small companies that are part of an "ineligible group" (as amended) should be allowed to access the small companies audit exemption?

None

Question 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies? *(Para 9.10)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

This exemption is rarely used in practice therefore the proposed amendment will have little impact.

b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purpose of implementing changes to the small companies accounting regime? *(Para 9.10)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

We do not support the proposed amendments to the definition of 'ineligible group.'

Question 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

a) Companies are excluded if their securities are traded on a regulated market? *(Para 9.11)*

☐ Yes ☐ No X☐ Not sure

Please provide information in support of your answer:

We believe this amendment would have little impact, but question whether it is likely that a company whose securities are traded on a regulated market could be considered dormant anyway.

b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purpose of implementing the small companies accounting regime? *(Para 9.11)*

☐ Yes ☐ No X☐ Not sure

Please provide information in support of your answer:

The exclusion should be consistent with the small companies accounting regime.

Question 35: Do you agree that Article 28 (2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive? *(Para 9.15)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your answer:

We support the rationale set out in paragraph 9.15 of the consultation paper.

Question 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive? *(Para 9.15)*

☐ Yes X☐ No ☐ Not sure

Please provide information in support of your answer:

Question 37: Do you agree that the regulations[1] should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services? *(Para 9.16)*

☐ Yes X☐ No ☐ Not sure

If no, are there any types of medium sized company (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

We believe that all such companies should be required to disclose the fees paid to their auditors for non-audit services in the interests of transparency. This information is of interest of users of the accounts and is not unduly burdensome for the preparer.

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to public companies unless they have securities traded on a regulated market? *(Para 9.16)*

☐ Yes X☐ No ☐ Not sure

If no, are there any types of public companies (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

We do not support this proposal for the reasons stated in our response to question 37.

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to companies in the same group as a public company? *(Para 9.16)*

☐ Yes X☐ No ☐ Not sure

If no, are there any circumstances in which other small or medium sized companies within a group which includes a public company should be required to disclose the fees paid to their auditor for non-audit services?

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[1] The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489)

We do not support this proposal for the reasons stated in our response to question 37.

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to medium sized and small companies that are members of ineligible groups? *(Para 9.17)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your response:

Our reasons for supporting the retention of this disclosure are set out in our response to question 37.

Question 41: Do you:

(a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or

(b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts? *(Para 9.20)*

X☐ a ☐ b ☐ Not sure

Please provide information in support of your response:

We do not believe the proposal in (b) is practical, therefore we support (a).

SECTION 10: Application to Charitable Companies

Question 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive? *(Para 10.6)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Yes, as it is important that charitable companies and their advisors are aware that additional reporting and accounting requirements are placed on charitable companies.

The Accounting Directive does not apply to not for profit companies and therefore the updated Regulations should be drafted in a way that distinguishes between aspects of

these Regulations which apply to not for profit companies, including charitable companies, and aspects which do not. This means that Accounting Regulations must be drafted in a way which does not leave any gaps in the company law framework for the preparation of reports and accounts by not for profit companies.

We recommend BIS establishes a process to ensure that any requirements placed on charitable companies in the updated Regulations are compatible with the reporting and accounting requirements placed on them by charity law.

In Scotland and in England and Wales, the accounts of charitable companies must also be prepared in accordance with charity law and accompanying charity accounting regulations. BIS should therefore ensure that any requirements in the updated Regulations do not conflict with the regime for charities in each jurisdiction Under the Charities Accounts (Scotland) Regulations 2005 (as amended), charitable companies must prepare their accounts in accordance with the Charities SORP(s). The charity accounting regulations which apply in England and Wales also require compliance with the Charities SORP(s) but the regulations themselves are more detailed than their Scottish equivalents and therefore dialogue may be required with between BIS and the Cabinet Office to make sure that the reporting and accounting requirements for Charity Commission (E&W) regulated charitable companies is cohesive and consideration is given to whether any changes need to be made to the England and Wales charity accounting regulations.

The regulatory regime for charities in Northern Ireland has been established relatively recently and aspects of the Charities Act (Northern Ireland) 2008 have still to be implemented. At the moment there are no Northern Ireland charity law requirements on the form and content of charity accounts. Charitable companies in Northern Ireland must however prepare accounts which give a 'true and fair' view and are expected to apply one of the new Charities SORPs (which are effective for period commencing on or after 1 January 2015). Therefore, it would be worthwhile liaising with the Department of Social Development in Northern Ireland to ensure that no conflicting requirements emerge from this process for charitable companies in Northern Ireland.

Question 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained? *(Para 10.7)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Yes. We agree that the updated Regulations should be sufficiently flexible to enable charitable companies to comply with the Charities SORPs and future requirements issued by the Office of the Scottish Charity Regulator and the Charity Commission for England and Wales.

There is no specific requirement in company law for charitable companies to prepare an income and expenditure account. However, where "the special nature of the company's business requires it, the company's directors must adapt the arrangement, headings

and sub-headings otherwise required in respect of items given an Arabic number in the balance sheet or profit and loss account format used."

Therefore, the practice of charitable companies preparing an income and expenditure account arises from the fact that preparing a profit and loss account would not be appropriate.

Under the new Charities SORPs a charitable company's main statements will comprise a statement of financial activities (SoFA), a balance sheet and possibly a statement of cash flows.

It is common for a separate summary income and expenditure account to be prepared by a charitable company, however, a SoFA incorporating an income and expenditure account can be prepared if appropriate for the circumstances of the charitable company. Essentially the SoFA combines income and expenditure and gains and losses in the same statement. It is important the updated Regulations continue to permit the main statement requirements of the new Charities SORPs.

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities? *(Para 10.8)*

X☐ Yes ☐ No ☐ Not sure

Please provide information in support of your view:

Yes. We agree that for a charitable company 'gross income' is a more appropriate terms than 'turnover'. 'Gross income' is the equivalent term used in the new Charities SORPs and the term is defined in both the Scottish and England and Wales accounting regulations. It is also a term referred to in Northern Ireland charity law.

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?

X☐ Yes ☐ No

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BIS/14/1025RF