

## **Comments on FRED 58**

### **From the Farming and Rural Business Special Interest Group**

#### **Question 1 Structure and language of draft FRS 105**

The approach adopted is agreed. The language used is easy to understand and the use of the same section and paragraph numbering makes it easy to compare FRS 105 to FRS 102 and identify the differences.

#### **Question 2 Legal Requirements**

Nothing has been identified which suggests that the draft FRS 105 does not accurately reflect the legal requirements and exemptions of the Micro-entities Regime.

#### **Question 3 – Principals for Simplifications**

The approach to simplify the burden on reporting for micro entities is welcome. The decision to remove all accounting policy choices including the choice in 24 FRS 102 where government grants can be recognised by entities adopting FRS 102 under either the accruals or performance models is less welcome. Adopters of FRS 102 are required to recognise government grants using the performance model. Most agricultural businesses receive a significant proportion of their annual income in the form of government grants under the Basic Payments Scheme (BPS). The BPS replaces the Single Payments Scheme (SPS) from 1 January 2015 and under this agricultural businesses need to satisfy a number of conditions to qualify for BPS payments. These conditions vary according to which UK country the land being farmed is located in. Some of these conditions have to be met for the whole of the calendar year of the claim. In recent years the SPS payments have been made towards the end of the calendar year but in the first few years of the SPS payments were often made VERY late with some payments not received until May following the end of the year of claim. There are concerns that over the next few years BPS will similarly be paid very late. Where the BPS payments are made after the end of the calendar year of the claim, it is expected that the BPS payments will normally be recognised in the accounts on the date that the payment is received under the performance model as the agricultural business should know whether it has satisfied the performance conditions for the calendar year by the time the payment is received. This could lead to more than one years BPS payments being recognised in the annual accounts for some years and no BPS payments being recognised in the annual accounts for other years as the date that BPS payments are paid will vary from year to year. Where this happens the accounts will suffer considerable distortion, perhaps by over 100% of annual profits, and will not accurately reflect the financial position of the entity with there also being an impact on the timing of tax payments. The SIG members would prefer to see the choice over use of accounting policies for recognition of government grants retained in the FRS 105 so agricultural businesses can use the accruals model to spread the BPS payments over the calendar year they relate to so a single years worth of BPS payments can be recognised in each set of the annual accounts prepared under FRS 102. An alternative would be to set the recognition date for BPS payments as the date on which all performance conditions have been met. It is expected that this would be the end of the calendar year for most agricultural businesses and that this could remove the distortion in the accounts for most entities.

#### **Question 4 Financial Instruments**

#### **Question 5 – Capitalisation of Development Costs and Borrowing Costs**

#### **Question 6 – Government Grants**

The approach of removing the accounting policy option from FRS 102 is not agreed for the reasons set out in detail in the answer to question 3 above. The alternative to allowing a choice between the accruals method and the performance method is preferred.

#### **Question 7 Simplifications via cross-referencing to requirements in FRS 102**

This proposed approach is agreed in general and specifically for the types of transactions mentioned in the question.

#### **Question 8 – Other Simplifications**

#### **Question 9 – Residents management companies (FRED 50)**

#### **Question 10 – Consultation Stage Impact Assessment**