



Micro Companies Regime

**Guidance notes arising from 2017
revisions to Irish Company Law**

June 2017

Revisions to Irish company law arising from the implementation of the Companies (Accounting) Act 2017

Guidance notes on micro companies regime

This document outlines the key differences impacting financial statements introduced into the Companies Act 2014 by the Companies (Accounting) Act 2017 in respect of a company qualifying for the micro companies regime, as a result of the transposition into Irish Law of the EU Accounting Directive 2013/34/EU and some other minor amendments. Where appropriate, the relevant sections of both Acts have been noted for information purposes.

This document, published in June 2017, is based on our interpretation of the Companies (Accounting) Act 2017. It frequently paraphrases the source document and thus, although it seeks to be comprehensive, reference must be made to the source document on any point of doubt or difficulty, and also to put the requirements in their proper context. The information contained in this document is general in nature and is not intended to address the circumstances of any particular entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

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1. Introduction

The Companies (Accounting) Act 2017 ('Act of 2017') was signed into Irish law on 17 May 2017. Its main purpose was to transpose the EU Accounting Directive 2013/34/EU (the 'Accounting Directive') into Irish Law. It amends Part 6 of the Companies Act 2014 ('Act of 2014') to give effect to the provisions in the Accounting Directive relating to the annual financial statements and related reports of companies, including the introduction of optional simplified regimes for small and micro companies. The Act of 2017 also incorporates some other miscellaneous amendments to amend and clarify provisions in the Act of 2014.

Section 15 of the Act of 2017 has introduced this simpler reporting regime for micro companies through the insertion of a new Chapter 1A into the Act of 2014, the amendment of various sections of the Act and the insertion of a new Schedule 3B, specifically designed for micro companies⁽¹⁾.

The micro companies regime is optional for eligible entities. A micro company may alternatively choose to prepare its financial statements under a financial reporting regime applicable to larger sized entities.

These guidance notes summarise the requirements in respect of micro companies choosing to use the micro companies regime under Irish law.

2. Commencement

The legislation giving effect to the commencement of the Act of 2017 is set out in S.I. No. 246 of 2017 'Companies (Accounting) Act 2017 (Commencement) Order 2017', amended by S.I. No. 250 of 2017 'Companies (Accounting) Act 2017 (Commencement) (NO. 2) Order 2017'. All requirements in relation to the small and micro companies regimes are available for early adoption in financial statements relating to financial years beginning on or after 1 January 2015 (although in practice most 2015 financial statements will already have been filed, but the regimes will be available for most 2016 year ends as those financial statements may not yet have been approved), and are mandatory for financial statements of financial years beginning on or after 1 January 2017. The miscellaneous amendments to adjust various other provisions of the Act of 2014 are effective from the date of commencement of the legislation, being 9 June 2017. The commencement of certain specific provisions (such as the requirement for certain designated unlimited companies to file financial statements) has been deferred. Commencement details for such specific provisions (which are unlikely to be of relevance to a micro company availing of the micro companies regime) are outlined in Section 2 of the separate guidance notes for medium and large companies.



⁽¹⁾ Sections 280D and 280E deal with qualification of a company as micro. Amendments to various sections of the Act of 2014, including a new Schedule 3B inserted by the Act of 2017 detail the required accounting principles, form and content of financial statements of a micro company.

3. Qualification of a company as a micro company

3.1 Micro company qualifying conditions - size test

Subject to (i) the various criteria set out below and (ii) the exclusions set out in Section 3.2, the micro companies regime is available to a private company (or holding company of a private group not preparing group financial statements) in relation to a financial year in which it fulfils **two or more** of the qualifying conditions set out in the table below, generally for at least two consecutive financial years:

	Qualifying condition
Turnover^(a)	\leq €700,000
Balance sheet total	\leq €350,000
Average number of employees	\leq 10

(a) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

First financial year

A private individual company qualifies to be treated as a micro company in relation to its first financial year if the qualifying conditions are satisfied in respect of that year. A private holding company is a micro company only if it meets the size criteria itself on an individual basis, if the group it heads up is a small group and it does not prepare group financial statements.

Subsequent financial year

A private company qualifies to be treated as a micro company in relation to a subsequent financial year if:

- The qualifying conditions are satisfied in respect of that year and the preceding financial year
- The qualifying conditions are satisfied in respect of that year and the company qualified as a micro company in relation to the preceding financial year
- The qualifying conditions were satisfied in the preceding financial year and the company qualified as a micro company in relation to that preceding year.

In summary, where a company does not meet two of the qualifying conditions in the current financial year, but was under the thresholds in the prior year it can still qualify as micro. However, where a company fails to meet two of the criteria for two consecutive years, it will not qualify in the second of those financial years.

3.2 Specific exclusions from qualification as a micro company

Despite meeting the size test criteria in 3.1 above, a 'micro company' must qualify for the small companies regime and, therefore, it cannot be an 'ineligible entity'.

'Ineligible entities' include undertakings that:

- Have transferable securities admitted to trading on any EU regulated market
- Are credit institutions
- Are insurance undertakings
- Are various other undertakings, most of which are regulated by the Central Bank of Ireland⁽²⁾; and
- Are other undertakings that are designated as public interest entities ('PIEs') either in Ireland or in another EU member state.

Also, investment undertakings⁽³⁾; financial holding undertakings⁽⁴⁾; holding companies that prepare group financial statements and subsidiary companies that are included in the group financial statements of a higher undertaking cannot qualify to be micro companies.



(2) These regulated undertakings are set out in Schedule 5 of the Act of 2014 - See Appendix 2.

(3) 'investment undertakings' means:

(a) undertakings the sole object of which is to invest their funds in various securities, real property and other assets, with the sole aim of spreading investment risks and giving their shareholders the benefit of the results of the management of their assets,

(b) undertakings associated with investment undertakings with fixed capital, if the sole object of those associated undertakings is to acquire fully paid shares issued by those investment undertakings without prejudice to point (h) of Article 22(1) of Directive 2012/30/EU.

(4) 'financial holding undertakings' means undertakings the sole object of which is to acquire holdings in other undertakings and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings, without prejudice to their rights as shareholders.

4. Options available to micro companies in the preparation of their financial statements

The following options are available for qualifying micro companies in the preparation of their financial statements:

Option		Irish Company Law	Accounting Standards	KPMG Guidance Notes
1	Opt into the micro companies regime	Micro companies regime	FRS 105	Guidance notes in this document on the micro companies regime
2	Opt into the small companies regime	Small companies regime	Section 1A, FRS 102	Separate guidance notes on the small companies regime
3	Opt to apply the requirements that apply to other companies	Medium / Large companies	FRS 102, FRS101 or EU IFRS	Separate guidance notes for medium / large companies

FRS 105 'The Financial Reporting Standard applicable to the Micro-entities Regime' ('FRS105') is based on FRS 102 but has significant disclosure and measurement simplifications. The Accounting Council's advice to the FRC to issue FRS 105 summarises these measurement simplifications in paragraph 28.

The remainder of this document focuses on micro companies choosing option 1 (the micro companies regime) in the above table, with information relating to the other regimes being set out in other KPMG publications.

5. Summary of main features of the micro companies regime

The main features of the micro companies regime are:

- A simpler balance sheet and profit and loss account. There are two formats for the balance sheet and one format for the profit and loss account
- A company that elects to adopt the micro companies regime is not required to prepare a directors' report, provided that information in relation to the acquisition or disposal of own shares by the company is provided elsewhere as a note
- Limited notes to the financial statements are required under the micro companies regime
- If a micro entity chooses to disclose additional information above and beyond those mandated, it should follow the disclosure requirements of the relevant accounting standard
- The fair value accounting and alternative accounting rules cannot be applied in micro entity financial statements. This means that no revaluations or subsequent measurement at fair value is permitted under the micro companies regime
- Micro company financial statements prepared in accordance with applicable accounting standards, the micro companies regime and other relevant provisions of the Act of 2017, are presumed by law to give a true and fair view.

6. General requirements for statutory financial statements of a micro company

6.1 True and fair view

There is a presumption that, for a micro company that elects to adopt the micro companies regime,

compliance with Schedule 3B of the Act of 2014 (inserted by the Act of 2017), applicable accounting standards, and the other applicable provisions of the Act are sufficient to give a true and fair view. As a consequence, it is not necessary to provide any additional information to ensure a true and fair view is presented.

6.2 Financial reporting standards applicable to micro companies

Companies eligible for the micro companies regime prepare their financial statements under FRS 105 'The Financial Reporting Standard applicable to the Micro-entities Regime'.

6.3 Directors' report

Micro companies are exempt from the requirement to produce a directors' report, provided that information in relation to the acquisition or disposal of own shares by the company (as required by Section 328 of the Act of 2014, amended by s44 of the Act of 2017) is provided elsewhere as a note.

Where a micro company elects to prepare a Directors' report it is not required to provide:

- Information on use of financial instruments (as otherwise generally required by s326(3) of the Act 2014).
- A business review, however, where it chooses to prepare a business review, it need not disclose non-financial key performance indicators (as otherwise generally required by s327(3)(b) of the Act of 2014).

6.4 Accounting principles, formats and disclosure requirements applicable to micro companies

The accounting principles, formats and disclosures required in the financial statements of a micro company are outlined in detail in Schedule 3B of the Act of 2014 (inserted by the Act of 2017). Disclosures for a micro company that adopts FRS 105 are not just those mandated within FRS 105. There are some differences between the law in the UK and Ireland and FRS 105 is based on the UK Law. The additional disclosures required by Irish company law must be considered.

Aside from the Profit and Loss account and Balance sheet, there are very limited note disclosures required. Details of the note disclosures required are set out in Appendix 1-Section A3.

6.5 Exemption from audit for micro companies

A company can avail of an exemption from audit if it qualifies for the micro companies regime (note exclusions from micro companies regime in 3.2) and meets the other requirements of the Act of 2014 in order to be able to avail of the exemption. Also, a 'relevant securitisation company' (as defined by s362 of the Act of 2014) cannot claim the audit exemption.

6.6 Statutory Auditors' report

For the purposes of the statutory auditors' report, compliance with the **minimum requirements of the Act** (i.e the provisions of the Act with which the company is obliged to comply, having availed of the exemptions to which it is entitled by virtue of qualifying for the micro companies regime) in relation to financial statements shall be presumed to give a true and fair view for the statutory financial statements.

Where a micro company has chosen not to avail of the exemption from preparing a directors' report, the statutory auditors must state (aside from stating whether the information in the directors' report is consistent with the information in the financial statements):

- (a) That the directors report has been prepared in accordance with applicable legal requirements; and
- (b) Whether based on their knowledge and understanding of the company and its environment obtained during the course of the audit, the auditors have identified material misstatements in the directors' report and if so, to provide an indication of the nature of such misstatements.

Note, the requirement in relation to the audit opinion on the directors' report above arises from Regulation 9(b) of the Statutory (Audits) Regulations 2016.

6.7 Approval and signing of statutory financial statements

Compliance with the **minimum requirements of the Act** (see 6.6 above) in relation to its financial statements shall be presumed to give a true and fair view for the purposes of the directors signing and approving the financial statements.

The balance sheet should contain in a prominent position above the signature(s) of the director(s), a statement that the statutory financial statements have been prepared in accordance with the micro companies regime.

7. Key differences for micro companies between Irish and UK law arising from the transpositions of the EU Accounting Directive

The transpositions of the EU Accounting Directive into UK and Irish laws are not identical in all respects due in part to differences in relation to the member state options selected.

In applying FRS 105, due care should be taken to ensure that the requirements of Irish Company law are fully complied with.



Appendix 1: Summary of disclosure requirements for the financial statements of a company qualifying for the micro companies regime

A1 Profit and loss account format

The profit and loss account should be presented in the following prescribed format (Schedule 3B-10):

1. Turnover
2. Other income
3. Cost of raw materials and consumables
4. Staff costs
5. Value adjustments and other amounts written off assets
6. Other expenses
7. Tax
8. Profit or loss

A2 Balance sheet format

The balance sheet should be presented in either of the following two prescribed formats (Schedule 3B-10):

A2.1 Format 1:

- A. Called up share capital not paid
- B. Fixed assets
- C. Current assets
- D. Prepayments and accrued income
- E. Creditors: amounts falling due within one year
- F. Net current assets (liabilities) [C + D – E]
- G. Total assets less current liabilities [A+ B+C+D-E]
- H. Creditors: amounts falling due after more than one year
- I. Provisions for liabilities
- J. Accruals and deferred income
- K. Capital and reserves

A2.2 Format 2:

Assets

- A. Called up share capital not paid
- B. Fixed assets
- C. Current assets
- D. Prepayments and accrued income

Capital, Reserves and Liabilities

- A. Capital and reserves
- B. Provisions for liabilities
- C. Creditors:
 - Amounts falling due within one year
 - Amounts falling due after one year
- D. Accruals and deferred income

A2.3 Statement of preparation of financial statements in accordance with the micro companies regime

The balance sheet should contain, in a prominent position above the signature(s), a statement that the statutory financial statements have been prepared in accordance with the micro companies regime (s324(4A) of Act of 2014).

A3 Notes to the financial statements

The following items are required to be disclosed in the notes to the financial statements, where the relevant circumstances arise:

Disclosure item	Act of 2014 (amended or inserted by the Act of 2017)*
Directors' and Officers' (non-director) transactions: loans, quasi-loans, credit transactions and guarantees	s307-s308 (<i>s29 Act of 2017</i>)
Financial commitments, guarantees and contingencies	Schedule 3B-35
Assets pledged / liabilities secured	Schedule 3B-34
Accounting principles and policies, and changes to accounting policies, general rules and formats	Schedule 3B-19 Schedule 3B-3(1), 3(2), 4(4), 4(5) s321(1) (<i>s37 Act of 2017</i>) s291(7)
Holding of own shares and shares in holding undertaking	s320 (<i>s36 Act of 2017</i>)
Particulars of reporting entity	s291(3A) (<i>s17(b) Act of 2017</i>)
Value adjustments for impairment or diminution in value of fixed assets	Schedule 3B-23(1),(2),(3) Schedule 3B-25(5)
Explanation of amortisation period of goodwill	Schedule 3B-25(4)
Appropriation of profit (if not included on profit and loss account or balance sheet)	Schedule 3B-33
Interest on borrowing costs capitalised	Schedule 3B-29(3)(b)
Development costs capitalised	Schedule 3B-24(1),(2)
Information in relation to the acquisition or disposal of own shares required by s328, as amended by s44 of the Act of 2017 (if exemption from requirement to provide a directors report is availed of, and where this information is not provided at the foot of the balance sheet)	s325(1a)(b) (<i>s41(b) Act of 2017</i>)
Particulars of assets and liabilities that are linked to each other or that have been offset.	Schedule 3B-4(4) Schedule 3B-7

A4 Comparative amounts

In respect of every item shown in the balance sheet, profit and loss account or notes to the financial statements, the corresponding amount for the immediately preceding financial year should be shown.

* Where a provision in the Act of 2014 has been amended by the Act of 2017 (non-schedule items only as Schedule 3B has been newly inserted by the Act of 2017 in full) both legal references have been provided (with the Act of 2017 references identified in square brackets and italics).

Appendix 2:

Schedule 5, Companies Act 2014

INELIGIBLE ENTITIES – Various other undertakings, most of which are regulated by the Central Bank of Ireland

1.	A company that is an authorised investment firm within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007).
2.	A company that is an authorised market operator.
3.	A company that is an associated undertaking or a related undertaking, of an authorised investment firm or an authorised market operator, within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007).
4.	A company to which Chapter VII, VIII or IX of Part II of the Central Bank Act 1989 applies.
5.	A company that is engaged in the business of accepting deposits or other repayable funds or granting credit for its own account.
6.	A company that is an associated body of a building society within the meaning of the Building Societies Act 1989.
7.	A company that is an associated enterprise of a credit institution within the meaning of the European Communities (Credit Institutions) (Consolidated Supervision) Regulations 2009 (S.I. No. 475 of 2009).
8.	An investment company within the meaning of Part 24.
9.	A company that is a management company, trustee or custodian within the meaning of Part 24 or of Part 2 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005.
10.	A company that is an undertaking for collective investment in transferable securities within the meaning of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011).
11.	A company that is a management company or trustee of an undertaking for collective investment in transferable securities within the meaning of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011).
12.	A company that is a management company or trustee of a unit trust scheme within the meaning of the Unit Trusts Act 1990.
13.	A company that is a general partner or custodian of an investment limited partnership within the meaning of the Investment Limited Partnerships Act 1994.
14.	A company that has close links (within the meaning of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158 of 2014)) with an authorised investment firm referred to in paragraph 1 or a company referred to in paragraph 5.
15.	Any other company the carrying on of business by which is required, by virtue of any enactment or instrument thereunder, to be authorised by the Central Bank.
16.	A company that is the holder of an authorisation within the meaning of (a) Regulation 2 of the European Communities (Non-Life Insurance) Regulations 1976 (S.I. No. 115 of 1976); (b) Regulation 2 of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994); (c) Regulation 2 of the European Communities (Life Assurance) Regulations 1984 (S.I. No. 57 of 1984); or (d) Regulation 2 of the European Communities (Life Assurance) Framework Regulations 1994 (S.I. No. 360 of 1994).
17.	A company that is an insurance intermediary within the meaning of the Insurance Act 1989.
18.	A company that is an excepted body within the meaning of the Trade Union Acts 1871 to 1990.



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