

GIBRALTAR FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES INTERPRETATIVE NOTE

(Issued December 2001)

This Interpretative Note (“ITN”) should be read in conjunction with the Explanatory Foreword to Gibraltar Accounting Standards (“GASs”).

1. REFERENCE

The Financial Reporting Standard for Smaller Entities, together with this interpretative note, will be referred to collectively as The Gibraltar Financial Reporting Standard for Smaller Entities (“GFRSSE”).

The following sections on the status of the GFRSSE and its objectives are adapted from the UK Financial Reporting Standard for Smaller Entities. The adaptation has been necessary to reflect local circumstances and/or Gibraltar legal requirements.

2. OBJECTIVE

The objective of the GFRSSE is to ensure that reporting entities falling within its scope provide in their financial statements information about the financial position, performance and financial adaptability of the entity that is useful to users in assessing the stewardship of management and for making economic decisions, recognising that the balance between users’ needs in respect of stewardship and economic decision-making for smaller entities is different from that for other reporting entities.

3. STATUS OF THE GFRSSE

3.1 General

The GFRSSE prescribes the basis, for those entities within its scope that have chosen to adopt it, for preparing and presenting their financial statements. The definitions and accounting treatments are, in general, consistent with the requirements of companies legislation and, for the generality of small entities, are the same as those required by other Gibraltar Accounting Standards (“GASs”) and related Interpretative Notes (“ITNs”). The disclosure requirements of the GFRSSE, however, exclude a number of those stipulated in GASs.

Reporting entities that apply the GFRSSE are exempt from complying with other GASs [and UK Urgent Issues Task Force (UITF) Abstracts], unless preparing consolidated financial statements, in which case GFRS 2, GFRS 6, GFRS 7 and GFRS 9 apply.

Financial statements will generally be prepared using accepted practice and, accordingly, for transactions or events not dealt with in the GFRSSE smaller entities should have regard to other GASs [and UITF Abstracts], not as mandatory documents, but as a means of establishing current practice.

3.2 Criteria

The UK Accounting Standards Board has stated that when considering the application of accounting standards [and UITF Abstracts] to smaller entities it has had, and will continue to have, regard to certain criteria. Since the list is compatible with local circumstances and/or Gibraltar legal accounting requirements it is reproduced below.

- (a) The standard or requirement is likely to be regarded as having general application and as an essential element of generally accepted accounting practice for all entities.

- (b) The standard or requirement is likely to lead to a transaction being treated in a way that would be readily recognised by the proprietor or manager of the business as corresponding to his or her understanding of the transaction.
- (c) The standard or requirement is likely to meet the information needs and legitimate expectations of a user of a small entity's accounts.
- (d) The standard or requirement results in disclosures that are likely to be meaningful and comprehensive to such a user. Where disclosures are aimed at a particular group of users, that group would be likely to receive the information, given that they may have access only to abbreviated accounts.
- (e) The requirements of the standard significantly augment the treatment prescribed by legislation.
- (f) The treatment prescribed by the standard or requirement is compatible with that already used, or expected to be used, by the Inland Revenue [Income Tax Office] in computing taxable profits.
- (g) The standard requirement provides the least cumbersome method of achieving the desired accounting treatment and/or disclosure for an entity that is not complex.
- (h) The standard provides guidance that is expected to be widely relevant to the transactions of small entities and is written in terms that can be understood by such business.
- (i) The measurement methods prescribed in the standard are likely to be reasonably practical for small entities.

The satisfaction of a majority of the above criteria would suggest that the standard or requirement under consideration may also be appropriate for application to smaller entities, whereas failure to satisfy a majority of the above criteria would suggest that exemption, or differing treatment, from the standard, or a specific requirement within that standard, may be more appropriate.

3.3 **Scope**

The GFRSSE may be applied to all financial statements intended to give a true and fair view of the financial position and profit or loss (or income and expenditure) of all entities¹ that are:

- (a) small companies or groups as defined in companies legislation (see section on legal requirements below); or
- (b) entities that would also qualify under (a) if they had been incorporated under companies legislation.

Accordingly, the GFRSSE does not apply to:

- (j) large or medium-sized companies, groups and other entities;

¹ Some older accounting standards are drafted in terms of application to companies. Reference to companies and associated terms, such as board of directors and shareholders, in the GFRSSE should therefore be taken to apply also to unincorporated entities

- (ii) public companies;
- (iii) banks, building societies or insurance companies;
- (iv) persons licensed under the Financial Services Ordinance; or
- (v) members of groups that contain companies falling under (ii)-(iv) above.

Reporting entities that are entitled to adopt the GFRSSE, but choose not to do so, should apply GASs [and UITF Abstracts] when preparing financial statements intended to give a true and fair view of the financial position and profit or loss of the entity.

4. LEGAL REQUIREMENTS IN GIBRALTAR

- (i) The definition of a small company is contained in Schedule 1 of the Companies (Accounts) Ordinance, 1999.

The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

Turnover	£4,800,000
Balance sheet total	£2,400,000
Average number of employees	50

For any company, other than a newly incorporated company, to qualify as small, the qualifying conditions must be met for two consecutive years. A company will cease to qualify as small if it fails to meet the qualifying conditions for two consecutive years.

- (ii) A public company is excluded by section 6 of schedule 1 of the Companies (Accounts) Ordinance, 1999 from the ‘small company’ criteria.
- (iii) Moreover, certain companies may not adopt the GFRSSE even if they meet the ‘small company’ criteria. These are any entity that is, or is in a group that includes:
 - (a) banks licensed or authorised under the Banking Ordinance 1992;
 - (b) insurance companies licensed under the Insurance Companies Ordinance; and
 - (c) persons licensed under the Financial Services Ordinance.

- (iv) A parent company shall not be treated as qualifying as a small company in relation to a financial year unless the group headed by it qualifies as a small group.

- (v) The definition of a small group is contained in section 14 of the Companies (Consolidated Accounts) Ordinance, 1999. The qualifying conditions are met by a group in a year in which it does not exceed two or more of the following criteria:

Aggregate turnover	£4,800,000 net (or £5,760,000 gross)
Balance sheet total	£2,400,000 net (or £2,880,000 gross)
Average number of employees	50

The rules for applying the criteria are similar to those for establishing the size classification of an individual company (see section 1 above).

‘Net means after the set-offs and other adjustments required by Schedule 2 in the case of group accounts and ‘gross’ means without those set-offs and adjustments. A company may satisfy the relevant requirements on the basis of either the net or the gross figure.

- (vi) On any particular matter reference should be made to the legal requirements section of the relevant GFRs to establish whether application of the FRSSE (or part thereof) would constitute a departure from any Gibraltar legal accounting requirements.
- (vii) Section 5 of the Companies (Accounts) Ordinance, 1999 sets out the principles to determine items shown in a company’s accounts.

5. DATE FROM WHICH EFFECTIVE

The accounting and disclosure requirements set out in the GFRSSE should be adopted as soon as possible and regarded as recommended practice in respect of the later of (i) accounting periods ending on or after 31 December 2001 and (ii) the effective date as stipulated in the UK standard.
