

# UK accounting standard for smaller companies has to be ...

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One of the drivers for change in UK accounting is Tim Bush, who was a chartered accountant but who has now resigned in protest, and who works at [PIRC](#) - who advise many local authority pension funds (and others) on investment related issues. PIRC issued a PIRC Alert yesterday saying (and I reproduce with permission):

*The FRC is having to withdraw its (recently introduced, not yet in effect) accounting standard for smaller companies. It does not comply with the new EU Accounting Directive of June 2013. The problem is set out in an FRC consultation paper just released.*

*The issue gets back to true and fair view and the FRC having got the [wrong end of the stick](#) on what true and fair view is . The FRC's standard for smaller companies requires more than that required by the new Directive, on the basis that embellishment is "useful" and hence is necessary for giving a true and fair view.*

However the new EU Directive sets the standard for true and fair view as the correct version, for which it is the minimum standard for the accounts to discharge basic director duties, not trading whilst insolvent and only paying dividends out of profits not capital. To use an analogy, the true and fair view requirement is the Christmas tree and not the tinsel on it. The FRC has consistently wrongly equated a true and fair view with the tinsel, and as the financial crisis has exposed, FRC accounting standards can mask whether a company is solvent or not, and, as the recent Betfair Group plc illegal dividend debacle has shown, the accounts can show "profits" that in law are not actually profits available to distribute.

This is what the FRC has said about its problem in the consultation. *“Although the FRC will make the changes to accounting standards that are required by the changes in legislation, not all of these changes are consistent with the FRC’s vision for financial reporting (paragraphs 2.7 and 3.10).”* In other words the FRC’s vision has been incompatible with the law and it has taken 15 months to notice.

PIRC continues to push for an independent enquiry into the very seriously defective standard setting process at the FRC and who ever has been determining the "vision"

needs to go.

I agree with PIRC. If our standard setters cannot get the most basic of issues with regard to company law and accounting right the time to change setters has arrived.