Accounting for loans from director-shareholders in small entities

For accounting periods beginning on or after 1 January 2016, small entities have been required to apply the accounting requirements of Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102').

One of the requirements of this standard is for companies to measure any long term interest free loans provided by directors that are shareholders at their present value. This entails determining and applying a discount rate by reference to the market rate for a similar debt instrument with an unrelated party. In practice, determining a market rate may be difficult because some small entities encounter difficulties in borrowing from a commercial lender.

On 8 May 2017, the Financial Reporting Council , the body responsible for the publication of FRS 102, issued an important and timely relaxation of this requirement. The relaxation, which is optional, dispenses with the requirement to measure these loans at present value. Instead, such loans may be measured at transaction price, which is the notional amount of the loan received, as was the case under previous UK GAAP.

This interim choice has been brought in ahead of more wide reaching proposed amendments to FRS 102 within Financial Reporting Exposure Draft 67 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRED 67'). If the proposals contained in FRED 67 are confirmed, the interim relief, together with other amendments to FRS 102 will be reflected in the revised final standard, which is expected to be issued in December 2017. This will be effective for periods commencing on or after 1 January 2019.

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