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Accounting for dormant companies under FRS 102

The Companies Act 2006 broadly defines a dormant company as one which has no transactions during a period that are required to be entered into the company's accounting records.

Dormant companies can be exempt from a number of potentially costly administrative requirements, including the requirement for statutory audit. Some groups choose to maintain a large number of dormant companies, especially where the name of the dormant company is associated with a particular brand, product or domain.

Where a dormant company has one or more items in assets, liabilities or equity which require recognition or measurement changes between FRS 102 and current UK GAAP, this could potentially be classed as a "significant accounting transaction" under the Act's definition. A company that had not undertaken a single 'transaction' in the ordinary sense would cease to be dormant, and hence lose the exemptions available to dormant companies, solely by virtue of having a new accounting standard imposed.

Therefore, under FRS 102 a company which meets the definition of dormant may choose to retain its existing accounting policies for assets, liabilities and equity. These policies may be kept in place until the company concerned undertakes an actual transaction (including reducing or increasing capital), which may have the effect of deferring the date of transition to FRS 102 for many years.

This is a sensible move and one which is consistent with the broad theme of simplification. However, where dormant companies have their accounts consolidated into the FRS 102 accounts of a group, the balance sheet will still need to be prepared under the recognition and measurement principles of FRS 102 for consolidation purposes even where the entity's own accounts remain under 'old' UK GAAP.

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