RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

FRS 102 vs FRS 105: Which Should Your Company Use?

A quick guide to the two UK GAAP frameworks that smaller companies choose between ***and how to pick the right one for your business.***

What are FRS 102 and FRS 105?

FRS 102 and FRS 105 are two of the accounting standards that make up UK GAAP, the rulebook that tells companies how to prepare their statutory accounts. They are both issued by the Financial Reporting Council and both sit below full International Financial Reporting Standards (IFRS), which only the largest UK companies have to use.

FRS 105 is the Financial Reporting Standard for the Micro-entities Regime. It is a deliberately simplified, historical cost only standard built for the smallest companies, with minimal disclosure requirements. FRS 102 is the broader standard for small and medium-sized entities and Section 1A of it sets out a reduced disclosure regime for small companies specifically. It permits more accounting choices, such as fair valuing investment property, and gives a fuller picture of the business.

Why this matters

If your company qualifies as small or micro company then you/your accountant have a genuine choice of which UK accounting standard your statutory accounts are prepared under. That choice affects how much your accounts cost to prepare, how much detail about your business ends up on the public record and how well your figures reflect what is really going on financially.

Who qualifies (thresholds from 6 April 2025)

You need to meet at least two of the three criteria below. Micro-entities also meet the small company thresholds, so they can choose either standard.

Threshold (meet 2 of 3)	FRS 105 · micro-entity	FRS 102 · small company
Turnover	£1 million or less	£15 million or less
Balance sheet total	£500,000 or less	£7.5 million or less
Employees	10 or fewer	50 or fewer

Key accounting differences

Treatment	FRS 105	FRS 102 (Section 1A)
Deferred tax	Not recognised	Required
Investment property & revaluations	Historical cost only	Fair value option available
Defined benefit pensions	Simple accrual only	Recognised on the balance sheet
Leases (periods from 1 Jan 2026)	Stay off balance sheet	Brought onto the balance sheet
Revenue recognition (periods from 1 Jan 2026)	New five-step model applies	New five-step model applies
Disclosure notes	Minimal	More extensive

Advantages and disadvantages at a glance

	FRS 105 · micro-entity	FRS 102 · small company
Advantages	Cheaper to prepare, minimal disclosure, profit and loss stays private, simplest bookkeeping	Fuller and fairer picture of the business, more credible with lenders and investors, more accounting choices, no need to switch standards later if you grow
Disadvantages	Cannot reflect fair value gains, no deferred tax, unsuitable if you have a defined benefit pension or complex financial instruments	Higher preparation cost, more disclosure and judgement required

A NOTE FROM HERMIT

As a rule of thumb, FRS 105 suits a simple, owner-managed micro business with straightforward assets. If you hold investment property, have meaningful tax timing differences, are seeking finance or expect to grow past the micro thresholds soon, FRS 102 is usually worth the extra effort, even if you qualify for FRS 105.

Filing privacy: what is changing

Right now, both standards let you keep your profit and loss account off the public register at Companies House. That is due to change under the Economic Crime and Corporate Transparency Act, currently expected to apply to filings made on or after 1 April 2028, when both micro-entities and small companies will generally need to file a profit and loss account, though an opt-out from public disclosure is expected to be available. For now, this privacy advantage still applies to both standards.

What to do next

- Check which thresholds your company currently meets
- Think about whether you hold investment property, run a pension scheme, or are seeking finance, since these tip the balance towards FRS 102
- If you are not sure which standard fits, get in touch and we will talk it through