

FRS 105: Using the micro-entities reporting standard for a property business

FRS 105 is the financial reporting standard applicable to micro-entities. This factsheet looks at which companies can use it, as well as its advantages and disadvantages.

What is a micro-entity?

A company meets the qualifying conditions for a micro-entity if it meets at least two out of three of the following thresholds:

- ❑ Turnover: Not more than £1 million.
- ❑ Balance sheet total: Not more than £500,000.
- ❑ Average number of employees: Not more than 10.

Most property investment companies will meet these criteria. These limits are effective from accounting periods starting 6 April 2025.

Why use FRS 105?

Most property investors prefer micro entity accounts because:

- ❑ No property revaluations are required – property is shown at depreciated historical cost. This can give both cost and time savings. Mortgage lenders are generally not affected by this as they always require a property valuation for lending purposes.
- ❑ Minimal disclosure, meaning less information about the company is held on public record.
- ❑ No deferred tax calculation required on projected gain on disposal.
- ❑ No Directors Report.

Are there any drawbacks to using FRS 105?

Investors and lenders may wish to see more comprehensive disclosure in the accounts. In these circumstances, using FRS 102 may be more appropriate, in particular the reduced disclosures for small companies in section 1A.

What is 'depreciated historical cost'?

FRS 105 states: "Depreciation shall be charged in a manner that writes off the cost or other amount substituted for cost of the tangible fixed asset, less its residual value, systematically over its useful life."

Land is not depreciated, but the cost of buildings is.

There is no universally fixed rule for the split between land and building value in the UK. However, a common rule of thumb used in property accounting and valuation is as follows:

- ❑ Land: approximately one third of the total property value.
- ❑ Building: approximately two thirds of the total property value.

Here is an example:

- ❑ Property Value: £300,000
- ❑ Building (to be depreciated): £200,000 (two-thirds of £300,000)
- ❑ Land (not depreciated): £100,000 (one-third of £300,000)

In London, land can be 50% or even more of the total value, rather than the typical one-third.

In many accounting practices, 50 years has been a typical estimate for the useful life of commercial and residential buildings. 100 years is possible if there is sufficient evidence that the building will provide economic benefits for that period and be usable over 100 years. However, the useful life estimate must be supportable and justifiable.

To learn more about using FRS 105 please speak to us – we will be happy to help!

This document has been prepared for information purposes and does not constitute advice. All information deemed correct as at 20 October 2025