Financial Reporting Council

Accounting and Reporting Policy
FRS 102

Staff Education Note 14
Credit unions - Illustrative financial statements

Contents

Introduction

This Staff Education Note has been prepared from an anonymous set of credit union financial statements prepared in accordance with current accounting standards for the year ended
30 September 2009 and have not been updated for any changes in legislation or for the introduction of any potentially new financial instruments.

As a result, in some areas the disclosures in this Staff Education Note are limited (identified by a "X") where additional information is required to be disclosed by FRS 102, but which was not required to be disclosed in the existing financial statements.

This Staff Education Note is written to illustrate some of the key differences between current accounting standards and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and is not designed to be exhaustive. There may be transactions that a credit union may enter into, that are not reflected in these illustrative financial statements. Credit unions should refer to relevant legislation to ensure requirements are met.

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Credit Union A

30 September

2016

FSA registration number xx

Directors' Report and Financial Statements

Administrative information

Directors	*[Include names of directors in office at the date of authorisation of the financial statements]*
Secretary	
Industrial and Provident Society Registration Number	
Financial Services Authority Registration Number	
Registered Office	
Auditors	
Bankers	
Solicitors	

Contents

Directors' Report

for the year ended 30 September 2016

The Directors present their report and the financial statements for the year ended 30 September 2016.

[…]

The Directors' Report was approved by the Board of Directors on [date] and signed on its behalf by:

[Name]

Independent Auditors' Report

[…]

Revenue Account[1]

for the year ended 30 September 2016

	Note	**2016** £	2015 £
Loan interest receivable and similar income	4	**1,019,175**	945,434
Interest payable	5	**(318,670)**	(435,007)
Net interest income[2]		**700,505**	510,427
Fees and commissions receivable	6	**3,532**	3,184
Fees and commissions payable[3]		**(3,179)**	(3,110)
Net fees and commissions receivable[4]		**353**	74
Other income		**893**	5,008
Administrative expenses	7a	**(304,401)**	(333,317)
Depreciation and amortisation	10	**(22,214)**	(24,230)
Other operating expenses	7b	**(104,419)**	(115,420)
Impairment losses on loans to members[5]	11e	**(58,585)**	(52,433)
Surplus before taxation		**212,132**	(9,891)
Taxation	9a	**(11,024)**	(26,950)
Surplus for the financial year		**201,108**	(36,841)
Other comprehensive income[6]		**-**	-
Total comprehensive income		**201,108**	(36,841)

1 Revenue Account is the title required by the Friendly and Industrial and Provident Societies Act 1968. FRS 102 does not require use of the title Statement of Comprehensive Income. Paragraph 4.2 permits a choice of formats. Credit Union A chooses to present its revenue account in accordance with the requirements for a profit and loss account in Schedule 2 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations).

2 This subtotal is not required by Schedule 2 to the Regulations, but is often provided by financial institutions.

3 In this case, bank charges have been classified as fees and commissions payable. If there are more components to fees and commissions payable it might be useful to provide a note to the financial statements showing the different components.

4 This subtotal is not required by Schedule 2 to the Regulations, but is often provided by financial institutions.

5 This includes provision for doubtful debts, bad debts written off and reversal of impairment losses on 'bad debts' recovered. Writing off bad debts is not the same as derecognising the financial asset (as evidenced by the reversal of impairment losses).

6 As there is no other comprehensive income, this need not necessarily be shown, although in those circumstances it would be good practice to add a footnote to confirm that there are no items of other comprehensive income. Credit Union A has chosen the single-statement approach to the Statement of Comprehensive Income.

Balance Sheet[7]

as at 30 September 2016

	Note	2016 £	2015 £
ASSETS			
Cash, cash equivalents and liquid deposits[8]			
Cash and balances with the Bank of England[9]	15	**-**	-
Loans and advances to banks	15	**1,542,720**	2,148,704
Loans and advances to members	11	**13,713,454**	12,243,266
Tangible fixed assets	10	**100,818**	114,615
Other receivables		**23,374**	22,725
Prepayments and accrued income		**22,315**	28,878
Total assets		**15,402,681**	14,558,188
LIABILITIES			
Subscribed capital – repayable on demand	12	**(13,655,585)**	(13,004,895)
Other payables	13	**(39,538)**	(46,843)
		(13,695,123)	(13,051,738)
Retained earnings		**1,707,558**	1,506,450
Total liabilities		**15,402,681**	14,558,188

The financial statements were approved, and authorised for issue, by the Board on [date] and signed on its behalf by:

[Name][10]

7 Balance sheet is the term used in the Friendly and Industrial and Provident Societies Act 1968. FRS 102 does not require use of the title Statement of Financial Position. Credit Union A has chosen to present its balance sheet in accordance with Schedule 2 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations).

8 This heading is not required by Schedule 2 to the Regulations. It has been included in order to group together the line items users might regard as 'cash'.

9 It has been assumed that Credit Union A does not hold cash with the Bank of England. If there is no cash held with the Bank of England in either year presented, there is no need to include this line item.

10 The balance sheet should be signed by the secretary and two directors.

Statement of changes in retained earnings

for the year ended 30 September 2016

	2016	2015
	£	£
As at 1 October 2015	**1,506,450**	1,543,291
Total comprehensive income for the year	**201,108**	(36,841)
As at 30 September 2016	**1,707,558**	1,506,450

Cash flow statement[11]

for the year ended 30 September 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Surplus/(deficit) before taxation		**212,132**	(9,891)
Adjustments for non-cash items:			
Depreciation	10	**22,214**	24,230
Impairment losses	11e	**59,746**	56,536
		81,960	80,766
Movements in:			
Accrued interest		**6,563**	44,024
Other receivables		**(649)**	(3,453)
Other payables		**8,618**	3,230
		14,532	43,801
Cash flows from changes in operating assets and liabilities			
Cash inflow from subscribed capital	12	**5,272,934**	5,019,614
Cash outflow from repaid capital	12	**(4,622,244)**	(5,035,601)
New loans to members	11a	**(7,713,518)**	(6,887,274)
Repayment of loans by members	11a	**6,183,584**	6,269,395
		(879,244)	(633,866)
Taxation paid		**(26,947)**	(37,893)
Net cash flows from operating activities		**(597,567)**	(557,083)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(8,417)**	(10,327)
Net cash flow from managing liquid deposits		**250,000**	(1,000,000)
		241,583	(1,010,327)
Net decrease in cash and cash equivalents		**(355,984)**	(1,567,410)
Cash and cash equivalents at beginning of year		**1,148,704**	2,715,844
Cash and cash equivalents at end of year	15	**792,720**	1,148,704

11 In accordance with FRS 102 paragraph 7.2, the cash flow statement reconciles cash and cash equivalents, which are highly liquid investments with a short-term maturity (three-months or less). Cash and cash equivalents will include both cash and balances at the central bank (ie Bank of England) and short-term deposits with other financial institutions. In accordance with FRS 102 paragraph 7.20, the components of cash and cash equivalents are disclosed in the notes to the financial statements.

Notes to the financial statements

for the year ended 30 September 2016

1. Legal and regulatory framework

Credit Union A is a society established under the Industrial and Provident Societies Act 1965, whose principal activity is to operate as a credit union, within the meaning of the Credit Unions Act 1979. Credit Union A has registered with the Financial Conduct Authority and is regulated by the Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000.

In accordance with the regulatory environment for credit unions, deposits from members can be made by subscription for redeemable shares, deferred shares and interest-bearing shares. At present Credit Union A has only issued redeemable shares.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are prepared on the historical cost basis.

[If other bases were applicable, include. Areas where other bases have been applied are identified in the accounting policies below.]

First-time adoption of FRS 102

These are Credit Union A's first financial statements to comply with FRS 102. The date of transition to FRS 102 is 1 October 2014.

The transition to FRS 102 has resulted in a small number of accounting policy changes compared to those applied previously. Note 19 to the financial statements describes the differences between the retained earnings and surplus or deficit presented previously, and the amounts as restated to comply with the accounting policies selected in accordance with FRS 102 for the reporting period ended at 30 September 2015 (ie comparative information), as well as the retained earnings presented in the opening balance sheet (ie at 1 October 2014). It also describes all the required changes in accounting policies made on first-time adoption of FRS 102.

Going concern

The financial statements are prepared on the going concern basis. The directors of Credit Union A believe this is appropriate despite a mismatch in the maturity analysis of subscribed capital and loans to members, because *[…include relevant explanation, which, for example, might refer to some of the subscribed capital not being redeemable at short notice unless loans with the same member have been repaid[12]]*.

[12] Credit Unions should consider consistency between the description of liquidity risk associated with subscribed capital (especially any that is not repayable until loans to the same member have been repaid) and the liquidity risk disclosures in note 14.

Income

Loan interest receivable and similar income: Interest on both loans to members and loans to banks (ie cash and cash equivalents held on deposit with other financial institutions) is recognised using the effective interest method[13], and is calculated and accrued on a daily basis.

Fees and commissions receivable: Fees and charges either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

Other income: Other income is recognised when *[...]*

Taxation

The tax charge for the year reflects current tax payable. Current tax is the expected corporation tax payable for the year, using tax rates in force for the year. Credit Union A is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, corporation tax is payable on investment income.

As a result of the limited activities of Credit Union A from which profits are chargeable to corporation tax, it is unlikely that deferred tax will arise.

Tangible fixed assets

Tangible fixed assets comprises items of property, plant and equipment, which are stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Deprecation is provided to write off the cost of each item of property, plant and equipment, less its estimated residual value, on a straight line basis over its estimated useful life. The categories of property, plant and equipment are depreciated as follows:

Land and buildings	10 to 25 years
Office equipment	3 to 5 years
Fixtures and fittings	5 years

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and with the Bank of England and loans and advances to banks (ie cash deposited with banks) with maturity of less than or equal to three months.

13 Credit unions will need to consider whether there are other charges or fees that should be included in the calculation of the effective interest rate, rather than being classified separately.

Financial assets – loans and advances to members

Loans to members are financial assets with fixed or determinable payments, and are not quoted in an active market. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

Loans are derecognised when the right to receive cash flows from the asset have expired, usually when all amounts outstanding have been repaid by the member. *[In accordance with relevant regulations]* Credit Union A does not transfer loans to third parties.

Impairment of financial assets

Credit Union A assesses, at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if, during the course of the year, there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

Financial liabilities – subscribed capital

Members' shareholdings in Credit Union A are redeemable and therefore are classified as financial liabilities, and described as subscribed capital. They are initially recognised at the amount of cash deposited and subsequently measured at amortised cost.

[Where a credit union has issued deferred shares, as permitted by the The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011, it will need to determine its accounting policy for these shares. Credit unions should consider the rights and obligations existing in relation to those deferred shares in the context of Section 22 of FRS 102, which sets out the conditions for classifying an instrument as equity, including that it can only be settled in cash in the event of liquidation. Where any deferred shares are classified as equity the dividends paid to the holders of the deferred shares will be classified as a distribution to owners and be recognised in the Statement of Changes in Retained Earnings. Credit unions will need to consider making it clear to users what the distinction is between 'dividends' recognised as interest payable and dividends recognised as distributions.]

Employee benefits

Defined contribution plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by Credit Union A for the relevant period.

Other employee benefits: Other short and long term employee benefits, including holiday pay, are recognised as an expense over the period they are earned.

Reserves

Retained earnings are the accumulated surpluses to date that have not been declared as dividends returnable to members.

3. Use of estimates and judgements

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Directors to exercise judgement in applying Credit Union A's accounting policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements, are disclosed below:

Impairment losses on loans to members

[Say something about how Credit Union A conducts impairment reviews and what sort of observable evidence is used.]

[Include any other areas of significant estimates or judgements, if any][14]

4. Loan interest receivable and similar income

	Note	2016 £	2015 £
Loan interest receivable from members		**971,911**	817,001
Bank interest receivable on cash and liquid deposits		**47,264**	128,433
Total loan interest receivable and similar income		**1,019,175**	945,434

5. Interest expense

Interest expense is the dividend paid to members for the prior year. The dividend is formally proposed by the Directors after the year end and is confirmed at the following AGM. As a result it does not represent a liability at the balance sheet date.

	Note	2016 £	2015 £
Interest paid during the year		**318,670**	435,007
Dividend rate:			
Share 1 accounts		**2.5%**	x%
Saverplus accounts		**1.0%**	x%
Interest proposed, but not recognised		**389,383**	318,670
Dividend rate:			
Share 1 accounts		**3.0%**	2.5%
Saverplus accounts		**1.5%**	1.0%

[Where a credit union has issued interest-bearing shares, as permitted by the The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011, it will need to consider disaggregating interest expense between that which is paid as a 'dividend' on members' deposits and that which is paid on interest-bearing shares. Additional accounting policy disclosure should also be considered.]

[14] Without further information it has been assumed that Credit Union A does not have any assets, liabilities or transactions that would need to be recognised in accordance with FRS 102, and which are not already referenced in its financial statements prepared in accordance with UK accounting standards. For example, this could include arrangements with the substance, but not the form, of a lease.

6. Fees and commissions receivable

	Note	2016 £	2015 £
Entrance fees		**2,265**	1,945
Insurance commission received		**872**	869
Annual service charge		**395**	370
Total fees and commissions receivable		**3,532**	3,184

7. Expenses

	Note	2016 £	2015 £
Administrative expenses	7a	**304,401**	333,317
Depreciation and amortisation	10	**22,214**	24,230
Other operating expenses	7b	**104,419**	115,420
		431,034	472,967

[This note is not required by FRS 102, but has been included as an aggregation of the costs that credit unions might currently consider to be their expenses, in case it is a metric credit unions use to manage their business.]

7a. Administrative expenses

	Note	2016 £	2015 £
Employment costs	8b	**234,175**	259,535
Staff training		**516**	404
Directors' expenses		**3,244**	3,161
Other staff expenses		**7,453**	7,269
Auditors' remuneration	7c	**4,403**	5,084
Telephone		**6,852**	3,986
Computer maintenance		**9,999**	12,968
Legal and professional		**9,145**	18,244
General expenses		**4,175**	689
Printing, postage and stationery		**21,622**	19,123
Other insurance		**2,817**	2,854
Total administrative expenses		**304,401**	333,317

7b. Other operating expenses

Other operating expenses comprise the costs of occupying offices and regulatory and financial management costs:

	2016	2015
	£	£
Cost of occupying offices (excluding depreciation)		
Cleaning	**6,680**	6,762
Repairs and maintenance	**4,507**	4,105
Heating and lighting	**4,245**	4,138
	15,432	15,005
Regulatory and financial management costs		
Financial Conduct Authority and Prudential Regulation Authority fees	**1,629**	1,450
Association of British Credit Unions Limited dues	**8,477**	8,436
Financial Services Compensation Scheme levy	**12,730**	-
Fidelity insurance	**4,838**	4,838
Loan protection and life savings insurance	**61,313**	85,691
	88,987	100,415
	104,419	115,420

7c. Auditors' remuneration

Credit Union A voluntarily presents an analysis of its auditors' remuneration in accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008.

	2016	2015
	£	£
Fees payable for the audit of Credit Union A's annual accounts[15]	**x**	x
Fees payable to Credit Union A's auditor for other services:		
Services relating to taxation	**x**	x
Total auditors' remuneration	**4,403**	5,084

[15] If the auditor has changed in the last year, it should be made clear what fees have been paid to each audit firm.

8. Employees and employment costs

8a. Number of employees[16]

The average monthly number of employees during the year were:

	2016 Number	2015 Number
Office staff	**9**	9

8b. Employment costs[17]

	2016 £	2015 £
Wages and salaries	**186,256**	209,919
Social security costs	**17,834**	17,872
Payments to defined contribution pension schemes	**30,085**	31,744
Total employment costs	**234,175**	259,535

8c. Directors' Remuneration

The Directors of Credit Union A are its key management personnel *[or, if there is a Non-Executive Board, supported by Management, then it is probably the Members of the Board, plus the Chief Executive, or Senior Management Team, depending on the circumstances]*.

	2016 £	2015 £
Short term employee benefits	**x**	x
Payments to defined contribution pension schemes	**x**	x
Total key management personnel compensation[18]	**x**	x

Short-term employee benefits include wages, salaries, social security contributions and paid annual leave.

16 FRS 102 does not require disclosure of the number of employees. For companies there is a legal requirement to disclose the number of employees; it is considered good practice for entities reporting in accordance with other legal/regulatory frameworks.

17 This is not an explicit requirement of FRS 102. For companies there is a legal requirement to disclose employment costs disaggregated as set out in this note; it is considered good practice for entities reporting in accordance with other legal/regulatory frameworks.

18 If any termination benefits have been paid to departing key management personnel, they must also be disclosed here as a separate category within total key management personnel compensation.

9. Taxation

9a. Recognised in the Revenue Account

The taxation charge for the year, based on the small profits rate of Corporation Tax of 21% (2015: 20.5%, taking into account marginal relief) comprised:

	Note	2016 £	2015 £
Current tax			
UK Corporation tax	9b	**11,024**	26,950
Total current tax and total taxation expense recognised in the Revenue Account		**11,024**	26,950

9b. Reconciliation of taxation expense

Credit Union A is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, corporation tax is payable on investment income. As a result, the tax charge for the year differs from the standard rate of Corporation Tax. The differences are explained below:

	2016 £	2015 £
Surplus before taxation	**212,132**	(9,891)
Surplus before taxation multiplied by small profits rate of corporation tax in the UK of 21% (2015: 20.5%)	**44,547**	(2,027)
Effects of:		
Non-taxable adjustment re holiday pay[19]	**(35)**	328
Non-taxable surplus/(deficit) on transactions with members	**(33,488)**	28,649
Total tax charge for the year	**11,024**	26,950

[19] In practice this tax effect would be aggregated with the one below, but has been shown separately here to illustrate the impact of the accounting change on adoption of FRS 102.

10. Tangible fixed assets

Tangible fixed assets comprise the following property, plant and equipment:

	Freehold land and buildings £	Office equipment £	Fixtures and fittings £	**Total £**
Cost				
At 30 September 2015	206,064	94,089	19,806	**319,959**
Additions	-	7,612	805	**8,417**
At 30 September 2016	**206,064**	**101,701**	**20,611**	**328,376**
Depreciation				
At 30 September 2015	105,847	83,084	16,413	**205,344**
Charge for the year	10,045	10,497	1,672	**22,214**
At 30 September 2016	**115,892**	**93,581**	**18,085**	**227,558**
Net book value				
At 30 September 2016	**90,172**	**8,120**	**2,526**	**100,818**
At 30 September 2015	100,217	11,005	3,393	**114,615**

11. Loans and advances to members – financial assets[20]

11a. Loans and advances to members[21]

	Note	**2016 £**	2015 £
As at 1 October 2015		**12,389,020**	11,805,223
Advanced during the year		**7,713,518**	6,887,274
Repaid during the year		**(6,183,584)**	(6,269,395)
Gross loans and advances to members	11b	**13,918,954**	12,423,102
Impairment losses			
Individual financial assets	11b, 11d	**(29,550)**	(34,082)
Groups of financial assets	11c	**(175,950)**	(145,754)
		(205,500)	(179,836)
As at 30 September 2016		**13,713,454**	12,243,266

20 Credit Union A does not have mortgages. Those credit unions with mortgages should consider disaggregating loans and advances to members between loans and mortgages (see FRS 102 paragraph 34.20).

21 FRS 102 does not require this note, but it might be useful in providing a link between movements in lending (as shown in the cash flow statement) and the net book value of loans shown in the balance sheet.

11b. Memorandum – Total loan assets for regulatory purposes[22]

	Note	2016	2015
		£	£
Gross loans and advances to members		**13,918,954**	12,423,102
Impairment of individual financial assets		**(29,550)**	(34,082)
Total loan assets for regulatory purposes	14b	**13,889,404**	12,389,020

[22] Consideration should be given to presenting a reconciliation between the amount recognised in the balance sheet (ie after impairment losses) and the gross loans used for regulatory purposes, if there is a difference.

11c. Credit risk disclosures

Credit Union A does not offer mortgages and as a result all loans to members are unsecured, except that there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding[23]. *[If there is a limit on how much may be borrowed by each member, disclose this because it provides evidence relating to credit risk concentration. This could be supplemented by any information on the average amount loaned.]*

The carrying amount of the loans to members represents Credit Union A's maximum exposure to credit risk. The following table provides information on the credit quality of loan repayments. Where loans are not impaired it is expected that the amounts repayable will be received in full.

	2016		2015	
	Amount	**Proportion**[24]	Amount	Proportion
	£	**%**	£	%
Not impaired:				
Neither past due nor impaired	**x**	**x**	x	x
Up to 3 months past due	**x**	**x**	x	x
Between 3 and 6 months past due	**x**	**x**	x	x
Between 6 months and 1 year past due	**x**	**x**	x	x
Over 1 year past due	**x**	**x**	x	x
Sub-total: loans not impaired	**x**	**x%**	x	x%
Individually impaired:				
Not yet past due, but impaired	**x**	**x**	x	x
Up to 3 months past due	**x**	**x**	x	x
Between 3 and 6 months past due	**x**	**x**	x	x
Between 6 months and 1 year past due	**x**	**x**	x	x
Over 1 year past due	**x**	**x**	x	x
Total loans	**13,918,954**	**100%**	12,423,102	100%
Impairment allowance	**(205,500)**		(179,836)	
Total carrying value	**13,713,454**		12,243,266	

Factors that are considered in determining whether loans are impaired are discussed in Note 3.

23 Where loans are secured, disclosure about the security should be provided.

24 FRS 102 does not require disclosure of the proportion of loans in each category, but this might be useful to users.

11d. Allowance account for impairment losses

	Note	2016 £	2015 £
As at 1 October 2015		**145,754**	123,300
Allowance for losses made during the year		**x**	x
Allowances reversed during the year		**x**	x
Increase in allowances during the year	11e	**30,196**	22,454
As at 30 September 2016		**175,950**	145,754

11e. Impairment losses recognised for the year

	2016 £	2015 £
Impairment of individual financial assets	**29,550**	34,082
Increase in impairment allowances during the year	**30,196**	22,454
	59,746	56,536
Reversal of impairment where debts recovered	**(1,161)**	(4,103)
Total impairment losses recognised for the year	**58,585**	52,433

12. Subscribed capital – financial liabilities[25]

	Note	2016 £	2015 £
As at 1 October 2015		**13,004,895**	13,020,882
Received during the year		**5,272,934**	5,019,614
Repaid during the year		**(4,622,244)**	(5,035,601)
As at 30 September 2016	14b	**13,655,585**	13,004,895

Deposits from members may only be made by way of subscription for shares.

[If Credit Union A had issued interest-bearing shares or had juvenile depositors, it might be useful to disaggregate this note between subscribed capital which is interest-bearing and that which is not, and separately identify deposits from juveniles.]

25 This note is not required by FRS 102 but provides a useful link between movements in subscribed capital as shown in the cash flow statement and the total deposited as shown in the balance sheet.

13. Other payables

	2016	2015
	£	£
UK Corporation Tax	**11,024**	26,947
Other payables	**15,304**	13,474
Accruals and deferred income	**13,210**	6,422
	39,538	46,843

14. Additional financial instruments disclosures

14a. Financial risk management

Credit Union A manages its subscribed capital and loans to members so that it earns income from the margin between interest receivable and interest payable.

The main financial risks arising from Credit Union A's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to Credit Union A, resulting in financial loss to Credit Union A. In order to manage this risk the Board approves Credit Union A's lending policy, and all changes to it. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. [Credit Union A also monitors its banking arrangements closely in light of the current banking situation].

Liquidity risk: Credit Union A's policy is to maintain sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of Credit Union A's liquidity policy is to smooth the mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that may arise. Note 2 provides further details about the impact of the maturity mismatch on the going concern status of Credit Union A.

Market risk: Market risk is generally comprised of interest rate risk, currency risk and other price risk. Credit Union A conducts all its transactions in sterling and does not deal in derivatives or commodity markets. Therefore Credit Union A is not exposed to any form of ***currency risk*** or ***other price risk***.

Interest rate risk: Credit Union A's main interest rate risk arises from differences between the interest rate exposures on the receivables and payables that form an integral part of a credit union's operations. Credit Union A considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital. Credit Union A does not use interest rate options to hedge its own positions. *[Need to describe how the interest rate risk is measured and/or monitored by the Board.]*

14b. Interest rate risk disclosures

The following table shows the average interest rates applicable to relevant financial assets and financial liabilities.

	2016		2015	
	Amount £	**Average interest rate**	Amount £	Average interest rate
Financial assets				
Loans to members[26]	**13,899,404**	**6.99%**	12,389,020	6.59%
Financial liabilities				
Subscribed capital[27]				
Saver 1 accounts	**12,303,282**	**3.00%**	12,574,737	2.50%
Supersaver accounts	**1,352,303**	**1.50%**	430,158	1.00%
	13,655,585	**2.85%**	13,004,895	2.45%

The interest rates applicable to loans to members are fixed and range from x% to y%. The interest payable on subscribed capital is determined on the basis of income less administrative expenses and, as can be seen above, a consistent margin is maintained between interest receivable and interest payable. As a result, the surplus for the year is not particularly sensitive to interest rate risk and no sensitivity analysis is presented[28].

[Credit unions that have issued interest-bearing shares will need to include these as a separate line item in the table above. In addition, they will need to consider the impact of the interest-bearing shares on the assumptions and discussion about sensitivity to interest rate risk.]

14c. Liquidity risk disclosures

Excluding short-term other payables, as noted in the balance sheet, Credit Union A's financial liabilities, the subscribed capital, are repayable on demand.

14d. Fair value of financial instruments

Credit Union A does not hold any financial instruments at fair value.

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26 Average interest rates on loans have been calculated based on interest receivable for the year and the regulatory balance of loans outstanding at the year end.

27 The interest rate for subscribed capital is based on the proposed dividend not the cash dividend paid, which effectively derives from the surplus in the prior year.

28 FRS 102 requires financial institutions to provide a sensitivity analysis for each type of market risk it is exposed to. This note explains that because interest payable is determined after the end of the relevant financial year, there is a lack of sensitivity. This table showing the average interest rates receivable on loans and payable on subscribed capital is not required by FRS 102, but is useful in highlighting the margin between interest payable and receivable, which is a way in which Credit Union A manages interest rates.

15. Cash and cash equivalents

	2016	2015
	£	£
Cash and balances with the Bank of England	-	-
Loans and advances to banks	1,542,720	2,148,704
	1,542,720	2,148,704
Less: amounts maturing after three months	(750,000)	(1,000,000)
Total cash and cash equivalents	792,720	1,148,704

16. Post balance sheet events

There are no material events after the balance sheet date to disclose.

17. Contingent liabilities

Credit Union A participates in the Financial Services Compensation Scheme (FSCS) and therefore has a contingent liability, which cannot be quantified, in respect of contributions to the FSCS, as required by the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) had provided details of how the calculation of next year's contribution towards the FSCS will be calculated and full provision has been included for this liability. However this is subject to future changes in interest rates and levels of deposits held by UK deposit takers. Therefore there is inherent uncertainty regarding the totality of the levy that Credit Union A will have to pay.

18. Related party transactions

During the year, 31 members of the Board, staff and their close family members (2015: 28 members) had loans with Credit Union A. These loans were approved on the same basis as loans to other members of Credit Union A. None of the directors, staff or their close family members, have any preferential terms on their loans.

19. Transition to FRS 102

Credit Union A has adopted FRS 102 for the first time in these financial statements for the year ended 30 September 2016. The reconciliations below highlight the key impacts on both the surplus for the financial year and the retained earnings.

Reconciliation of surplus from previous UK accounting standards to FRS 102

	2016	2015
	£	£
Surplus/(deficit) as previously reported	200,940	(35,239)
Short term employee benefits	168	(1,602)
Surplus (in accordance with FRS 102)	201,108	(36,841)

Reconciliation of retained earnings from previous UK accounting standards to FRS 102

	2016	2015
	£	£
Retained earnings	1,708,992	1,508,052
Short term employee benefits	(1,434)	(1,602)
Retained earnings (in accordance with FRS 102)	1,707,558	1,506,450

The adjustments are:

19a. Employee benefits

Under UK accounting standards, Credit Union A did not make a provision for holiday pay, ie holiday earned but not taken prior to the year end. In contrast, FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement. As a result an additional accrual has been made to reflect this.[29]

[29] It has been assumed that on average staff have two days holiday earned but not yet taken at 30 September. In this case it might be argued that the impact of this adjustment is not material, and therefore need not have been processed. However, in order to illustrate this difference between current UK accounting standards and FRS 102, the adjustment has been reflected in these financial statements.