



Financial Reporting Council

March 2015

Foreword to Accounting Standards

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Introduction

- 1 This foreword explains the scope, authority and identification of accounting standards, issued by the Financial Reporting Council (FRC), for the purposes of the *Companies Act 2006* (the Act) and Regulations made thereunder.
- 2 This foreword relates to financial statements prepared in accordance with UK and Republic of Ireland legislation and accounting standards (for companies these are referred to in the Act as 'Companies Act accounts'). It does not apply to financial statements prepared in accordance with EU-adopted IFRS (for companies these are referred to in the Act as 'IAS accounts').

Scope of accounting standards

- 3 Directors of companies incorporated under the Act are required by the Act to prepare financial statements that give a true and fair view of:
 - (a) the assets, liabilities and financial position of the company and, where relevant, the group at the end of the reporting period; and
 - (b) the profit or loss of the company and, where relevant, the group for the reporting period.

In the case of a micro-entity, financial statements drawn up in accordance with the micro-entity provisions of company law are presumed to give a true and fair view.

- 4 Accounting standards are applicable to the financial statements of a reporting entity¹ that are required to give a true and fair view of its financial position at the reporting date² and of its profit or loss (or income and expenditure) for the reporting period.
- 5 The whole essence of accounting standards is to provide for recognition, measurement, presentation and disclosure for specific aspects of financial reporting in a way that reflects economic reality and hence provides a true and fair view.
- 6 More information about the 'true and fair' concept can be found on the FRC's website at <http://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/True-and-Fair.aspx>.

Authority for issuing accounting standards

- 7 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. In the Republic of Ireland the accounting standards issued by the FRC are promulgated by the Institute of Chartered Accountants in Ireland (ICAI). The objective of the FRC and ICAI is a regime of accounting standards common to both the United Kingdom and the Republic of Ireland.
- 8 In relation to the setting of accounting standards the FRC has identified that its objective is to enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

¹ This includes entities incorporated under the Act and preparing Companies Act accounts, and also entities that are not constituted as companies, but are otherwise required to prepare financial statements that give a true and fair view.

² For companies this is the accounting reference date.

Identification of accounting standards

- 9 Accounting standards developed by the FRC will be designated Financial Reporting Standards (FRSs)³.
- 10 The FRC may issue FRSs that relate to other aspects of financial reporting, but which are not accounting standards.
- 11 Each FRS will indicate its status, ie that it is an accounting standard or, if not, the circumstances in which it may be applied. For the avoidance of doubt, those FRSs issued prior to the issue of this edition of the *Foreword to Accounting Standards* are accounting standards.
- 12 The FRC may issue other material with, or alongside, an FRS. This material is only part of an accounting standard where it is identified as an integral part of an FRS that is an accounting standard.

Early adoption of Financial Reporting Exposure Drafts

- 13 An exposure draft is issued for comment and is subject to revision. Until it is finalised as an accounting standard the requirements of any existing accounting standards that would be affected by proposals in the exposure draft remain in force.
- 14 Some reporting entities may wish to provide additional information reflecting proposals in an exposure draft. In the FRC's view there are two ways that this can be achieved:
 - (a) Insofar as the information does not conflict with existing accounting standards, it could be incorporated into the financial statements. It should be remembered, however, that the proposals may change before forming part of an accounting standard and the consequences of a change to the proposals should be considered.
 - (b) The information could be provided in supplementary form.
- 15 Similar considerations apply to consultation documents or discussion documents issued by the FRC, and to proposals to amend FRSs that are not accounting standards.

Withdrawal of Foreword to Accounting Standards (issued November 2012)

- 16 The *Foreword to Accounting Standards* issued by the FRC in November 2012 is superseded by this Foreword and is accordingly withdrawn.

³ For accounting periods beginning on or after 1 January 2015, as set out in FRS 100 *Application of Financial Reporting Requirements*, a number of accounting standards were withdrawn. Some of these accounting standards did not have the designation FRS, but were nevertheless accounting standards and continue to be applicable to accounting periods beginning prior to 1 January 2015.



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