



Financial Reporting Council

July 2013

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# Financial Reporting Standard for Smaller Entities (effective January 2015)

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# Financial Reporting Standard for Smaller Entities (effective January 2015)

Financial Reporting Standard for Smaller Entities (effective January 2015) is set out in parts A to D.

The Statement of Standard Accounting Practice set out in sections 1 to 20 of Part B should be read in the context of the Objective as stated in Part A, the Definitions set out in Part C and the Foreword to Accounting Standards. In addition, recommended Voluntary Disclosures, which do not form part of the Statement of Standard Accounting Practice, are set out in Part D.

As stated in the *Foreword to Accounting Standards*, accounting standards, which include the FRSSE, need not be applied to immaterial items.

Appendix IV *The Development of the FRSSE* reviews considerations and arguments that were thought significant by members of the Board in reaching the conclusions on the document.

The Financial Reporting Standard for Smaller Entities (effective January 2015) updates and supersedes the Financial Reporting Standard for Smaller Entities (effective April 2008). It should be regarded as standard for financial statements relating to accounting periods beginning on or after 1 January 2015. Early adoption is permitted.

The Financial Reporting Standard for Smaller Entities (effective January 2015) is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

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# Status of the FRSSE

## General

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- 1 The Financial Reporting Standard for Smaller Entities (effective January 2015) (the FRSSE) prescribes the basis, for those entities within its scope that have chosen to adopt it, for preparing and presenting their financial statements. The definitions and accounting treatments are consistent with the requirements of companies legislation.
- 2 Reporting entities that apply the FRSSE, together with FRS 100 *Application of Financial Reporting Requirements*, are exempt from complying with other Financial Reporting Standards (FRSs).
- 3 For the convenience of companies using the FRSSE, the requirements of company law in the United Kingdom on full financial statements have been reflected in this standard. THESE ARE SHOWN IN SMALL CAPITALS TO DISTINGUISH THEM FROM THE REQUIREMENTS OF THE FRSSE<sup>1</sup>. The legal requirements set out in the FRSSE are intended to reflect company law, including the Companies Act 2006 and amendments and Regulations issued thereunder which are effective from 6 April 2008. This does not affect directors' responsibilities regarding compliance with company law and in all matters regarding interpretation of the legal requirements reference should be to the relevant legislation.
- 4 The significant differences between this version of the FRSSE (effective January 2015) and the FRSSE (effective April 2008) are in respect of the revised reporting framework introduced into the UK effective January 2015. As part of the revised reporting framework, the FRC has withdrawn extant Financial Reporting Standards and Urgent Issues Task Force (UITF) Abstracts. It has made consequential amendments to the FRSSE where it previously referred to standards or Abstracts that are now withdrawn.
- 5 Financial statements will generally be prepared using accepted practice and, accordingly, for transactions or events not dealt with in the FRSSE, smaller entities should first have regard to their own existing accounting policies. Where an entity applying the FRSSE undertakes a new transaction not dealt with in the FRSSE for which it has no existing policy, in developing a new policy it should have regard to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, not as a mandatory document, but as a means of establishing current practice.
- 5A Public benefit entities (PBEs), only, shall have regard to the requirements in FRS 102 that are specific to PBEs not as mandatory requirements, but as a means of establishing current practice.

## Criteria

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- 6 When considering the application of accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, to smaller entities, the FRC has had, and will continue to have, regard to the following criteria:<sup>2</sup>

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<sup>1</sup> The detail of the requirements in company law in the Republic of Ireland in many cases differs from the UK requirements reflected in the FRSSE. Tables showing the source of legislative requirements in British law and the equivalent sources in Northern Ireland and the Republic of Ireland are available on the FRC website ([frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/FRSSE.aspx](http://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/FRSSE.aspx)). In addition, there are a number of Republic of Ireland legal requirements that are not reflected in the FRSSE. There is no equivalent to SI 2008/409 *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* providing certain exemptions for small companies when preparing annual accounts for shareholders. Exemptions from company law requirements for small companies in the Republic of Ireland are therefore limited and relate primarily to information that must be filed with the Companies Registration Office. This does not affect directors' responsibilities regarding compliance with company law and in all matters regarding interpretation of the legal requirements in the Republic of Ireland reference should be to the relevant legislation.

<sup>2</sup> Legal advice has been obtained that in accounting standards smaller entities may properly be allowed exemptions or differing treatments provided that there are rational grounds for doing so: see Appendix I.

- (a) The standard or requirement is likely to be regarded as having general application and as an essential element of generally accepted accounting practice for all entities.
  - (b) The standard or requirement is likely to lead to a transaction being treated in a way that would be readily recognised by the proprietor or manager of the business as corresponding to his or her understanding of the transaction.
  - (c) The standard or requirement is likely to meet the information needs and legitimate expectations of a user of a small entity's accounts.
  - (d) The standard or requirement results in disclosures that are likely to be meaningful and comprehensive to such a user. Where disclosures are aimed at a particular group of users, that group would be likely to receive the information, given that they may have access only to abbreviated accounts.
  - (e) The requirements of the standard significantly augment the treatment prescribed by legislation.
  - (f) The treatment prescribed by the standard or requirement is compatible with that already used, or expected to be used, by the Inland Revenue in computing taxable profits.
  - (g) The standard or requirement provides the least cumbersome method of achieving the desired accounting treatment and/or disclosure for an entity that is not complex.
  - (h) The standard provides guidance that is expected to be widely relevant to the transactions of small entities and is written in terms that can be understood by such businesses.
  - (i) The measurement methods prescribed in the standard are likely to be reasonably practical for small entities.
- 7 The satisfaction of a majority of the above criteria would suggest that the standard or requirement under consideration may also be appropriate for application to smaller entities, whereas failure to satisfy a majority of the above criteria would suggest that exemption, or differing treatment, from the standard, or a specific requirement within that standard, may be more appropriate.

## Scope

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- 8 The FRSSE may be applied to all financial statements intended to give a true and fair view of the financial position and profit or loss (or income and expenditure) of all entities<sup>3</sup> that are:
- (a) small companies or small groups as defined in companies legislation<sup>4</sup> preparing Companies Act individual or group accounts; or
  - (b) entities that would also qualify under (a) if they had been incorporated under companies legislation, with the exception of building societies.
- 9 Accordingly, the FRSSE does not apply to:
- (a) large or medium-sized companies, groups and other entities;
  - (b) public companies;

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<sup>3</sup> Some older accounting standards are drafted in terms of application to companies. References to companies and associated terms, such as board of directors and shareholders, in the FRSSE should therefore be taken to apply also to unincorporated entities.

<sup>4</sup> The legal definitions of small companies and small groups in the UK are set out in Appendix I. In the Republic of Ireland the FRSSE can be applied to those companies meeting the criteria as set out in companies legislation that allow them to be treated as 'small' for the purposes of filing information with the Companies Registration Office.



- (c) companies preparing individual or group accounts in accordance with international accounting standards;
  - (d) companies preparing individual or group accounts in accordance with the fair value accounting rules for certain assets and liabilities set out in Section D of Schedule 1 of Regulation 2008/409 to the Companies Act 2006<sup>5</sup>;
  - (e) a company that is an authorised insurance company, a banking company, an e-money issuer, an Mifid investment firm<sup>6</sup> or a UCITS management company or a company that carries on insurance market activity;
  - (f) a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 (in the UK) to carry on a regulated activity or, notwithstanding the definition of a small company in the legislation, companies authorised under the Investment Intermediaries Act 1995 (in the Republic of Ireland); or
  - (g) members of an ineligible group. A group is ineligible if any of its members is:
    - (i) A public company;
    - (ii) A body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State;
    - (iii) A person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity;
    - (iv) A small company that is an authorised insurance company, a banking company, an e-money issuer, a Mifid investment firm or a UCITS management company; or
    - (v) A person who carries on insurance market activity.
- 10 Reporting entities that are entitled to adopt the FRSSSE, but choose not to do so, are required to apply EU-adopted IFRS, FRS 101 *Reduced Disclosure Framework* (in the individual financial statements of qualifying entities) or FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, in accordance with the requirements of FRS 100 *Application of Financial Reporting Requirements*, when preparing financial statements intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity<sup>7</sup>.

### **Statements of Recommended Practice**

- 11 Statements of Recommended Practice (SORPs) and other equivalent guidance may specify the circumstances, if any, in which entities in the industry or sector addressed in the SORP or equivalent guidance may adopt the current version of the FRSSSE.
- 12 Where SORPs are drafted on the basis of the requirements of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, financial statements cannot be said to comply with those SORPs if they are prepared in accordance with the FRSSSE.

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<sup>5</sup> Companies accounting for fixed assets and investments at valuation are not precluded from using the FRSSSE.

<sup>6</sup> The *Markets in Financial Instruments Directive (Consequential Amendments) Regulations 2007* (SI 2007/2932) substituted the term “Mifid investment firm” for “ISD investment firm”.

<sup>7</sup> Under company law in the Republic of Ireland, certain companies are permitted to prepare Companies Act accounts using a financial reporting framework based on accounting standards other than those issued by the FRC.



**Financial Reporting Standard for Smaller Entities  
(effective January 2015)**

## **A Objective**

- 1 The objective of the FRSSE is to ensure that reporting entities falling within its scope provide in their financial statements information about the financial position, performance and financial adaptability of the entity that is useful to users in assessing the stewardship of management and for making economic decisions, recognising that the balance between users' needs in respect of stewardship and economic decision-making for smaller entities is different from that for other reporting entities.

## B Statement of Standard Accounting Practice

### 1 Scope

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- 1.1 The FRSSE may be applied to all financial statements intended to give a true and fair view of the financial position and profit or loss (or income and expenditure) of all entities that are:
- (a) companies incorporated under **companies legislation**<sup>8</sup> and entitled to the exemptions available in the legislation for small companies when filing accounts with the Registrar of Companies;<sup>9</sup> or
  - (b) entities that would have come into category (a) above had they been companies incorporated under **companies legislation**, excluding building societies. While not bound by the requirements of **companies legislation** reflected in the FRSSE (set out in SMALL CAPITALS), such entities shall have regard to the **accounting principles**, presentation and disclosure requirements in **companies legislation** (or other equivalent legislation) that, taking into account the FRSSE, are necessary to present a true and fair view.

### 2 General

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#### Requirement to prepare financial statements

- 2.1 THE **DIRECTORS** MUST PREPARE FOR EACH **FINANCIAL YEAR** OF THE COMPANY<sup>10</sup> –
- (A) A BALANCE SHEET AS AT THE LAST DAY OF THE **FINANCIAL YEAR**; AND
  - (B) A PROFIT AND LOSS ACCOUNT.

#### True and fair view

- 2.2 THE BALANCE SHEET MUST GIVE A TRUE AND FAIR VIEW OF THE STATE OF AFFAIRS OF THE COMPANY AS AT THE END OF THE **FINANCIAL YEAR**; AND THE PROFIT AND LOSS ACCOUNT MUST GIVE A TRUE AND FAIR VIEW OF THE PROFIT OR LOSS OF THE COMPANY FOR THE **FINANCIAL YEAR**. THE **DIRECTORS** OF A COMPANY MUST, IN DETERMINING HOW AMOUNTS ARE PRESENTED WITHIN ITEMS IN THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET, HAVE REGARD TO THE SUBSTANCE OF THE REPORTED TRANSACTION OR ARRANGEMENT, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OR PRACTICE. To determine the substance of a transaction it is necessary to identify whether the transaction has given rise to new **assets** or **liabilities** for the reporting entity and whether it has changed the entity's existing **assets** or **liabilities**.
- 2.3 IF IN SPECIAL CIRCUMSTANCES COMPLIANCE WITH ANY OF THE PROVISIONS OF THE FRSSE OR COMPANIES ACT IS INCONSISTENT WITH THE REQUIREMENT TO GIVE A TRUE AND FAIR VIEW, THE **DIRECTORS** MUST DEPART FROM THAT PROVISION TO THE EXTENT NECESSARY TO GIVE A TRUE AND FAIR VIEW. PARTICULARS OF THE DEPARTURE, THE REASONS FOR IT AND ITS EFFECT MUST BE GIVEN IN A NOTE TO THE ACCOUNTS as follows:
- (a) a statement that there has been a departure from the requirements of the FRSSE or Companies Act and that the departure is necessary to give a true and fair view;

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<sup>8</sup> Terms appearing in **bold** in the text are explained in the Definitions set out in Part C.

<sup>9</sup> The legal definitions of small companies and small groups in the UK are set out in Appendix I. In the Republic of Ireland the FRSSE can be applied to those companies meeting the criteria as set out in companies legislation that allow them to be treated as 'small' for the purposes of filing information with the Companies Registration Office.

<sup>10</sup> Text appearing in SMALL CAPITALS refers to UK company legislation requirements.

- (b) a statement of the treatment that the FRSSE or Companies Act would normally require and a description of the treatment adopted;
  - (c) a statement of the reasons why the treatment prescribed would not give a true and fair view; and
  - (d) a description of how the position shown in the financial statements is different as a result of the departure, normally with quantification, except where:
    - (i) quantification is already evident in the financial statements themselves; or
    - (ii) the effect cannot be reasonably quantified, in which case the **directors** shall explain the circumstances.
- 2.4 Where a departure continues in subsequent financial statements, the disclosures shall be made in all subsequent statements and shall include comparative amounts for the previous period. Where a departure affects only the comparative amounts, the disclosures shall be given for those comparative amounts.
- 2.5 Where there is doubt whether applying provisions of the FRSSE would be sufficient to give a true and fair view, adequate explanation shall be given in the notes to the accounts of the transaction or arrangement concerned and the treatment adopted.

#### **Accounting principles and policies**

- 2.6 The financial statements shall state that they have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015)<sup>11</sup>.
- 2.7 Financial statements shall include:
- (a) a description of each material **accounting policy** followed;
  - (b) details of any changes to the **accounting policies** followed in the preceding period including, in addition to the disclosures necessary for **prior period adjustments**, a brief explanation of why each new **accounting policy** is thought more appropriate and, where practicable, an indication of the effect of the change on the results for the current period; and
  - (c) where the effect of a change to an **estimation technique** is material, a description of the change and, where practicable, the effect on the results for the current period.
- 2.8 **THE ACCOUNTING POLICIES** ADOPTED BY THE COMPANY IN DETERMINING THE AMOUNTS TO BE INCLUDED IN RESPECT OF ITEMS SHOWN IN THE BALANCE SHEET AND IN DETERMINING THE PROFIT OR LOSS OF THE COMPANY MUST BE STATED (INCLUDING SUCH POLICIES WITH RESPECT TO THE **DEPRECIATION** AND DIMINUTION IN VALUE OF ASSETS).
- 2.9 **Accounting policies** and **estimation techniques** shall be consistent with the requirements of the FRSSE and of **companies legislation** (or other equivalent legislation). Where this permits a choice, an entity shall select the policies and techniques most appropriate to its particular circumstances for the purpose of giving a true and fair view, taking account of the objectives of relevance, **reliability**, comparability and understandability.

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<sup>11</sup> This statement may be included with the note of accounting policies or, for those entities taking advantage of the exemptions for small companies in companies legislation, in the statement required by companies legislation to be given on the balance sheet. For example, in Great Britain the combined statement could read as follows "These accounts have been prepared in accordance with the provisions applicable to small companies within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective January 2015)." If abbreviated accounts are also to be prepared, the statement referring to the Financial Reporting Standard for Smaller Entities (effective January 2015) shall be included with the note of accounting policies so that it is reproduced in the abbreviated accounts.

- 2.10 **Accounting policies** MUST BE APPLIED CONSISTENTLY WITHIN THE SAME ACCOUNTS AND FROM ONE **FINANCIAL YEAR** TO THE NEXT. They shall be reviewed regularly to ensure that they remain the most appropriate to the entity's particular circumstances for the purpose of giving a true and fair view. However, in judging whether a new policy is more appropriate than the existing policy, due weight shall be given to the impact on consistency and comparability. Following a change in **accounting policy**, the amounts for the current and corresponding periods shall be restated on the basis of the new policies.
- 2.11 IN DETERMINING THE AGGREGATE AMOUNT OF ANY ITEM, THE AMOUNT OF EACH INDIVIDUAL ASSET OR LIABILITY THAT FALLS TO BE TAKEN INTO ACCOUNT MUST BE DETERMINED SEPARATELY. AMOUNTS IN RESPECT OF ASSETS OR INCOME MAY NOT BE SET OFF AGAINST AMOUNTS IN RESPECT OF LIABILITIES OR EXPENDITURE (AS THE CASE MAY BE), OR VICE VERSA.

### **Going concern**

- 2.12 THE COMPANY IS PRESUMED TO BE CARRYING ON BUSINESS AS A GOING CONCERN. When preparing financial statements, **directors** shall assess whether there are significant doubts about the entity's ability to continue as a going concern. Any material uncertainties, of which the **directors** are aware in making their assessment, shall be disclosed. Where the period considered by the **directors** in making this assessment has been limited to a period of less than one year from the date of approval of the financial statements, that fact shall be stated. The financial statements shall not be prepared on a going concern basis if the **directors** determine after the balance sheet date either that they intend to liquidate the entity or to cease trading, or that they have no realistic alternative but to do so.

### **Prudence**

- 2.13 THE AMOUNT OF ANY ITEM MUST BE DETERMINED ON A PRUDENT BASIS. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and liabilities are not understated. However it is not necessary to exercise prudence where there is no uncertainty. Nor is it appropriate to use prudence as a reason to understate deliberately assets or gains or overstate liabilities or losses.

### **Accruals**

- 2.14 The financial statements, with the exception of cash flow information, shall be prepared on the accruals basis of accounting. HENCE, ALL INCOME AND CHARGES RELATING TO THE **FINANCIAL YEAR** TO WHICH THE ACCOUNTS RELATE MUST BE TAKEN INTO ACCOUNT, WITHOUT REGARD TO THE DATE OF PAYMENT OR RECEIPT.

### **Prior period adjustments**

- 2.15 **Prior period adjustments** shall be accounted for by restating the comparative figures for the preceding period in the primary statements and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments shall also be noted at the foot of the statement of **total recognised gains and losses** of the current period. The effect of **prior period adjustments** on the results for the preceding period shall be disclosed where practicable.

### **Formats – general rules**

- 2.16 THE FORMATS FOR THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ARE SET OUT BELOW. A COMPANY'S INDIVIDUAL ACCOUNTS MUST COMPLY WITH THE PROVISIONS SET OUT BELOW AS TO THE FORM AND CONTENT OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND ADDITIONAL INFORMATION TO BE PROVIDED BY WAY OF NOTES TO THE ACCOUNTS.

- 2.17 THE **DIRECTORS** OF THE COMPANY MUST ADOPT THE SAME FORMAT IN PREPARING THE ACCOUNTS FOR SUBSEQUENT **FINANCIAL YEARS** OF THE COMPANY UNLESS, IN THEIR OPINION, THERE ARE SPECIAL REASONS FOR A CHANGE. PARTICULARS OF ANY CHANGE IN THE FORMAT ADOPTED IN A COMPANY'S PROFIT AND LOSS ACCOUNT OR BALANCE SHEET MUST BE DISCLOSED, AND THE REASONS FOR THE CHANGE MUST BE EXPLAINED IN A NOTE TO THE ACCOUNTS IN WHICH THE NEW FORMAT IS FIRST ADOPTED.
- 2.18 WHERE COMPLIANCE WITH THE PROVISIONS OF COMPANIES LEGISLATION AS TO THE MATTERS TO BE INCLUDED IN A COMPANY'S INDIVIDUAL ACCOUNTS OR IN NOTES TO THOSE ACCOUNTS WOULD NOT BE SUFFICIENT TO GIVE A TRUE AND FAIR VIEW, THE NECESSARY ADDITIONAL INFORMATION MUST BE GIVEN IN THE ACCOUNTS OR IN A NOTE TO THEM.
- 2.19 ANY ITEM REQUIRED TO BE SHOWN IN THE ACCOUNTS MAY BE SHOWN IN GREATER DETAIL THAN REQUIRED BY THE FORMAT ADOPTED. THE ACCOUNTS MAY INCLUDE AN ITEM REPRESENTING OR COVERING THE AMOUNT OF ANY ASSET OR LIABILITY, INCOME OR EXPENDITURE NOT OTHERWISE COVERED BY ANY OF THE ITEMS LISTED IN THE FORMAT ADOPTED<sup>12</sup>.
- 2.20 ITEMS LISTED IN THE FORMATS MUST NOT BE INCLUDED IF THERE IS NO AMOUNT TO BE SHOWN FOR THAT ITEM IN RESPECT OF THE **FINANCIAL YEAR** TO WHICH THE ACCOUNTS RELATE AND FOR THE IMMEDIATELY PRECEDING **FINANCIAL YEAR**.
- 2.21 IN PREPARING THE BALANCE SHEET OR PROFIT AND LOSS ACCOUNT, THE **DIRECTORS** MUST ADAPT THE ARRANGEMENT, HEADINGS AND SUBHEADINGS OF ITEMS TO WHICH AN ARABIC NUMBER IS ASSIGNED IN THE FORMATS, WHERE THE SPECIAL NATURE OF THE COMPANY'S BUSINESS REQUIRES SUCH ADAPTATION.
- 2.22 ITEMS TO WHICH ARABIC NUMBERS ARE ASSIGNED IN ANY OF THE FORMATS MAY BE COMBINED FOR ANY **FINANCIAL YEAR** IF:
- (A) THEIR INDIVIDUAL AMOUNTS ARE NOT MATERIAL TO ASSESSING THE STATE OF AFFAIRS OR PROFIT AND LOSS OF THE COMPANY FOR THAT YEAR; OR
  - (B) THEIR COMBINATION FACILITATES THAT ASSESSMENT OF THE BALANCE SHEET OR PROFIT AND LOSS ACCOUNT. WHERE THIS APPLIES, THE INDIVIDUAL AMOUNTS OF ANY ITEMS WHICH HAVE BEEN COMBINED MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS.
- 2.23 Corresponding amounts for the previous accounting period shall be shown for every item disclosed in the balance sheet, profit and loss account and notes to the financial statements. Where there is no amount to be shown for an item in the balance sheet or profit and loss account for the current accounting period but a corresponding amount can be shown for the previous accounting period, the corresponding amount shall be shown. Where a corresponding amount is not comparable with that for the current accounting period, it shall be adjusted and particulars of the adjustment and the reasons for it shall be disclosed in a note to the financial statements. Corresponding amounts are not required in relation to any amounts stated in the notes to the financial statements for the items listed below:
- (a) details of additions, disposals, revaluations, transfers and cumulative depreciation of fixed assets;
  - (b) transfers to or from reserves and provisions and the source and application of any transfers;
  - (c) details of a company's shareholdings in subsidiary undertakings; and
  - (d) details of a company's significant holdings in undertakings other than subsidiary undertakings.

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<sup>12</sup> PRELIMINARY EXPENSES, EXPENSES OF AND COMMISSION ON ANY ISSUE OF SHARES OR DEBENTURES AND COSTS OF RESEARCH SHALL NOT BE TREATED AS ASSETS.



- 2.24 IF NOT GIVEN IN THE COMPANY'S ACCOUNTS, THERE MUST BE STATED BY WAY OF A NOTE TO THOSE ACCOUNTS ANY AMOUNT SET ASIDE OR PROPOSED TO BE SET ASIDE, OR WITHDRAWN OR PROPOSED TO BE WITHDRAWN FROM RESERVES. FOR EACH RESERVE DISCLOSED SEPARATELY IN THE ACCOUNTS, THE FOLLOWING INFORMATION MUST BE PROVIDED:
- (A) THE AMOUNT OF THE RESERVE AT THE BEGINNING AND THE END OF THE **FINANCIAL YEAR**;
  - (B) ANY AMOUNTS TRANSFERRED TO OR FROM THE RESERVES DURING THE YEAR; AND
  - (C) THE SOURCE AND APPLICATION OF THE AMOUNTS TRANSFERRED.
- 2.25 FOR THE AGGREGATE OF ALL ITEMS SHOWN AS CREDITORS IN THE BALANCE SHEET, THE AGGREGATE OF THE AMOUNTS WHICH FALL DUE FOR PAYMENT MORE THAN FIVE YEARS AFTER THE END OF THE CURRENT PERIOD MUST BE DISCLOSED. AMOUNTS PAYABLE OR REPAYABLE BY INSTALMENTS AND THOSE PAYABLE OR REPAYABLE OTHERWISE THAN BY INSTALMENTS SHALL BE SEPARATELY DISCLOSED.
- 2.26 FOR EACH ITEM SHOWN UNDER CREDITORS, THE AGGREGATE AMOUNT OF ANY DEBTS INCLUDED WHERE ANY SECURITY HAS BEEN GIVEN BY THE COMPANY MUST BE DISCLOSED.

**Balance sheet format**<sup>13</sup>

- 2.27 THE BALANCE SHEET MUST SHOW THE ITEMS LISTED IN THE ORDER, AND UNDER THE HEADINGS AND SUB-HEADINGS, SHOWN IN THE FORMAT BELOW<sup>14</sup>.

<p><b>BALANCE SHEET FORMAT</b><sup>15</sup></p> <p>A. CALLED UP SHARE CAPITAL NOT PAID</p> <p>B. FIXED ASSETS</p> <ul style="list-style-type: none"> <li>I. INTANGIBLE ASSETS <ul style="list-style-type: none"> <li>1. GOODWILL</li> <li>2. OTHER INTANGIBLE ASSETS</li> </ul> </li> <li>II. TANGIBLE ASSETS <ul style="list-style-type: none"> <li>1. LAND AND BUILDINGS</li> <li>2. PLANT AND MACHINERY ETC</li> </ul> </li> <li>III. INVESTMENTS <ul style="list-style-type: none"> <li>1. SHARES IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS</li> <li>2. LOANS TO GROUP UNDERTAKINGS AND UNDERTAKINGS IN WHICH THE COMPANY HAS A PARTICIPATING INTEREST</li> <li>3. OTHER INVESTMENTS OTHER THAN LOANS</li> <li>4. OTHER INVESTMENTS</li> </ul> </li> </ul>
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<sup>13</sup> An alternative format is available under companies legislation and may be adopted.

<sup>14</sup> Note: this does not mean that the items, headings and sub-headings need be identified by the letters and numbers assigned to them in the format.

<sup>15</sup> There are certain differences in the format requirements for the balance sheet under companies legislation in the Republic of Ireland. The format requirements are contained in *Part 1 of the Schedule to the Companies (Amendment) Act 1986* with references available in the derivation tables on the FRC website.

- C. CURRENT ASSETS
  - I. STOCKS
    - 1. STOCKS
    - 2. PAYMENTS ON ACCOUNT
  - II. DEBTORS<sup>16</sup>
    - 1. TRADE DEBTORS
    - 2. AMOUNTS OWED BY GROUP UNDERTAKINGS AND UNDERTAKINGS IN WHICH THE COMPANY HAS A PARTICIPATING INTEREST
    - 3. OTHER DEBTORS
  - III. INVESTMENTS
    - 1. SHARES IN GROUP UNDERTAKINGS
    - 2. OTHER INVESTMENTS
  - IV. CASH AT BANK AND IN HAND
- D. PREPAYMENTS AND ACCRUED INCOME<sup>17</sup>
- E. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR
  - 1. BANK LOANS AND OVERDRAFTS
  - 2. TRADE CREDITORS
  - 3. AMOUNTS OWED TO GROUP UNDERTAKINGS AND UNDERTAKINGS IN WHICH THE COMPANY HAS A PARTICIPATING INTEREST
  - 4. OTHER CREDITORS<sup>18</sup>
- F. NET CURRENT ASSETS/LIABILITIES<sup>19</sup>
- G. TOTAL ASSETS LESS CURRENT LIABILITIES
- H. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR
  - 1. BANK LOANS AND OVERDRAFTS
  - 2. TRADE CREDITORS
  - 3. AMOUNTS OWED TO GROUP UNDERTAKINGS AND UNDERTAKINGS IN WHICH THE COMPANY HAS A PARTICIPATING INTEREST
  - 4. OTHER CREDITORS
- I. PROVISIONS FOR LIABILITIES
- J. ACCRUALS AND DEFERRED INCOME<sup>20</sup>
- K. CAPITAL AND RESERVES
  - I. CALLED UP SHARE CAPITAL
  - II. SHARE PREMIUM ACCOUNT
  - III. REVALUATION RESERVE
  - IV. OTHER RESERVES
  - V. PROFIT AND LOSS ACCOUNT

<sup>16</sup> THE AMOUNT FALLING DUE AFTER MORE THAN ONE YEAR SHALL BE SHOWN SEPARATELY FOR EACH ITEM INCLUDED UNDER DEBTORS UNLESS THE AGGREGATE AMOUNT OF DEBTORS FALLING DUE AFTER MORE THAN ONE YEAR IS DISCLOSED IN THE NOTES TO THE ACCOUNTS.

<sup>17</sup> THIS ITEM MAY ALTERNATIVELY BE INCLUDED UNDER ITEM C.II.3.

<sup>18</sup> ITEMS E4, H4 AND J: THERE SHALL BE SHOWN SEPARATELY THE AMOUNT OF ANY CONVERTIBLE LOANS AND THE AMOUNT OF CREDITORS IN RESPECT OF TAXATION AND SOCIAL SECURITY.

<sup>19</sup> IN DETERMINING THE AMOUNT TO BE SHOWN UNDER THIS ITEM ANY PREPAYMENTS AND ACCRUED INCOME MUST BE TAKEN INTO ACCOUNT.

<sup>20</sup> THIS ITEM MAY ALTERNATIVELY BE INCLUDED UNDER ITEM E4 OR H4 OR BOTH (AS THE CASE MAY REQUIRE).

## Profit and loss account formats<sup>21</sup>

- 2.28 THE FORMAT OF THE PROFIT AND LOSS ACCOUNT MUST COMPLY WITH ONE OF THE FORMATS SET OUT BELOW.
- 2.29 THE ACCOUNT MUST SHOW THE ITEMS LISTED IN THE ORDER, AND UNDER THE HEADINGS AND SUB-HEADINGS, SHOWN IN THE FORMATS SET OUT BELOW<sup>22</sup>.

### PROFIT AND LOSS ACCOUNT FORMAT 1<sup>23</sup>

1. TURNOVER
2. COST OF SALES<sup>24</sup>
3. GROSS PROFIT OR LOSS
4. DISTRIBUTION COSTS
5. ADMINISTRATIVE EXPENSES
6. OTHER OPERATING INCOME
7. INCOME FROM SHARES IN GROUP UNDERTAKINGS
8. INCOME FROM PARTICIPATING INTERESTS
9. INCOME FROM OTHER FIXED ASSET INVESTMENTS
10. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME
11. AMOUNTS WRITTEN OFF INVESTMENTS
12. INTEREST PAYABLE AND SIMILAR CHARGES
- 12A. PROFIT OR LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION
13. TAX ON PROFIT OR LOSS ON ORDINARY ACTIVITIES
14. PROFIT OR LOSS ON ORDINARY ACTIVITIES AFTER TAXATION<sup>25</sup>
19. OTHER TAXES NOT SHOWN UNDER THE ABOVE ITEMS
20. PROFIT OR LOSS FOR THE FINANCIAL YEAR

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<sup>21</sup> Alternative formats are available under companies legislation and may be adopted.

<sup>22</sup> Note, this does not mean that the items, headings and sub-headings need be identified by the letters and numbers assigned to them in the formats.

<sup>23</sup> There are certain differences in the format requirements for the profit and loss account under companies legislation in the Republic of Ireland. The format requirements are contained in *Part 1 of the Schedule to the Companies (Amendment) Act 1986*. References are available in the derivation tables on the FRC website.

<sup>24</sup> COST OF SALES, DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES SHALL INCLUDE THE PROVISIONS FOR DEPRECIATION AND DIMINUTIONS IN VALUE OF ASSETS. THESE AMOUNTS SHALL ALSO BE SEPARATELY DISCLOSED IN A NOTE TO THE ACCOUNTS.

<sup>25</sup> Extraordinary items, which are extremely rare, shall be shown separately after the profit or loss on ordinary activities after taxation.

## PROFIT AND LOSS ACCOUNT FORMAT 2

1. TURNOVER
2. CHANGE IN STOCKS OF FINISHED GOODS AND IN WORK IN PROGRESS
3. OWN WORK CAPITALISED
4. OTHER OPERATING INCOME
5. A. RAW MATERIALS AND CONSUMABLES  
B. OTHER EXTERNAL CHARGES
6. STAFF COSTS:
  - A. WAGES AND SALARIES
  - B. SOCIAL SECURITY COSTS
  - C. OTHER PENSION COSTS
7. A. DEPRECIATION AND OTHER AMOUNTS WRITTEN OFF TANGIBLE AND INTANGIBLE FIXED ASSETS  
B. EXCEPTIONAL AMOUNTS WRITTEN OFF CURRENT ASSETS
8. OTHER OPERATING CHARGES
9. INCOME FROM SHARES IN GROUP UNDERTAKINGS
10. INCOME FROM PARTICIPATING INTERESTS
11. INCOME FROM OTHER FIXED ASSET INVESTMENTS
12. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME
13. AMOUNTS WRITTEN OFF INVESTMENTS
14. INTEREST PAYABLE AND SIMILAR CHARGES
- 14A. PROFIT OR LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION
15. TAX ON PROFIT OR LOSS ON ORDINARY ACTIVITIES
16. PROFIT OR LOSS ON ORDINARY ACTIVITIES AFTER TAXATION<sup>26</sup>
21. OTHER TAXES NOT SHOWN UNDER THE ABOVE ITEMS
22. PROFIT OR LOSS FOR THE FINANCIAL YEAR

### Approval and signing of accounts

- 2.30 A COMPANY'S ANNUAL ACCOUNTS MUST BE APPROVED BY THE BOARD OF **DIRECTORS** AND SIGNED ON BEHALF OF THE BOARD BY A DIRECTOR OF THE COMPANY. THE SIGNATURE MUST BE ON THE COMPANY'S BALANCE SHEET. The date on which the financial statements are approved by the board of **directors** shall be disclosed in the financial statements. THE BALANCE SHEET MUST CONTAIN, IN A PROMINENT POSITION ABOVE THE SIGNATURE, A STATEMENT THAT THE ACCOUNTS HAVE BEEN PREPARED IN ACCORDANCE WITH THE PROVISIONS APPLICABLE TO SMALL COMPANIES WITHIN PART 15 OF THE COMPANIES ACT 2006.
- 2.31 EVERY COPY OF THE BALANCE SHEET WHICH IS PUBLISHED BY OR ON BEHALF OF THE BOARD MUST STATE THE NAME OF THE PERSON WHO SIGNED THE BALANCE SHEET ON BEHALF OF THE BOARD.

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<sup>26</sup> Extraordinary items, which are extremely rare, shall be shown separately after the profit or loss on ordinary activities after taxation.

- 2.32 THE COPY OF THE COMPANY'S BALANCE SHEET WHICH IS DELIVERED TO THE REGISTRAR MUST STATE THE NAME OF THE PERSON WHO SIGNED IT ON BEHALF OF THE BOARD.
- 2.33 IF ANNUAL ACCOUNTS ARE APPROVED WHICH DO NOT COMPLY WITH THE REQUIREMENTS OF THE COMPANIES ACT, EVERY DIRECTOR OF THE COMPANY WHO KNOWS THAT THEY DO NOT COMPLY OR IS RECKLESS AS TO WHETHER THEY COMPLY COMMITS AN OFFENCE AND IS LIABLE TO A FINE. FOR THIS PURPOSE, EVERY DIRECTOR OF THE COMPANY AT THE TIME THE ACCOUNTS ARE APPROVED SHALL BE TAKEN TO BE A PARTY TO THEIR APPROVAL UNLESS HE SHOWS THAT HE TOOK ALL REASONABLE STEPS TO SECURE COMPLIANCE WITH THOSE REQUIREMENTS OR, AS THE CASE MAY BE, PREVENT THEIR BEING APPROVED.

- 2.34 IF A COPY OF THE BALANCE SHEET –
- (A) IS LAID BEFORE THE COMPANY, OR OTHERWISE CIRCULATED, PUBLISHED OR ISSUED, WITHOUT THE BALANCE SHEET HAVING BEEN SIGNED OR WITHOUT THE REQUIRED STATEMENT OF THE SIGNATORY'S NAME BEING INCLUDED; OR
  - (B) IS DELIVERED TO THE REGISTRAR WITHOUT BEING SIGNED;

EVERY PERSON WHO WAS A DIRECTOR OF THE COMPANY COMMITS AN OFFENCE AND IS LIABLE TO A FINE.

#### **Delivery to the registrar**

- 2.35 THE COPY OF THE FINANCIAL STATEMENTS DELIVERED TO THE REGISTRAR MUST STATE IN A PROMINENT POSITION THE REGISTERED NUMBER OF THE COMPANY, BE SIGNED BY, AND STATE THE NAME OF, THE **DIRECTORS** WHO SIGNED ON BEHALF OF THE BOARD AND REGISTERED AUDITORS AS APPROPRIATE.
- 2.36 THE FINANCIAL STATEMENTS MUST ALSO CONTAIN A STATEMENT IN A PROMINENT POSITION ON THE BALANCE SHEET THAT THEY HAVE BEEN PREPARED IN ACCORDANCE WITH THE SPECIAL PROVISIONS IN PART 15 OF THE COMPANIES ACT 2006 RELATING TO SMALL COMPANIES.

#### **Exemptions from audit**

- 2.37 WHERE A COMPANY MEETS THE CONDITIONS FOR EXEMPTION FROM AUDIT, AND HAS TAKEN ADVANTAGE OF THAT EXEMPTION, THE BALANCE SHEET MUST CONTAIN A STATEMENT BY THE **DIRECTORS** THAT:
- (A) FOR THE YEAR IN QUESTION, THE COMPANY WAS ENTITLED TO EXEMPTION (UNDER SECTIONS 475 AND 477 OF THE COMPANIES ACT 2006);
  - (B) NO MEMBER OR MEMBERS ELIGIBLE TO DO SO HAVE DEPOSITED A NOTICE REQUESTING AN AUDIT WITHIN THE SPECIFIED TIME PERIOD; AND
  - (C) THE **DIRECTORS** ACKNOWLEDGE THEIR RESPONSIBILITIES FOR COMPLYING WITH THE REQUIREMENTS OF THE COMPANIES ACT 2006 WITH RESPECT TO ACCOUNTING RECORDS AND FOR PREPARING ACCOUNTS WHICH GIVE A TRUE AND FAIR VIEW OF THE STATE OF AFFAIRS OF THE COMPANY AS AT THE END OF THE **FINANCIAL YEAR** AND OF ITS PROFIT OR LOSS FOR THE **FINANCIAL YEAR** IN ACCORDANCE WITH THE REQUIREMENTS OF SECTIONS 394 AND 395 (DUTY TO PREPARE INDIVIDUAL COMPANY ACCOUNTS AND APPLICABLE ACCOUNTING FRAMEWORK), AND WHICH OTHERWISE COMPLY WITH THE REQUIREMENTS OF THE COMPANIES ACT 2006 RELATING TO ACCOUNTS, SO FAR AS APPLICABLE TO THE COMPANY.
- 2.38 WHERE THE **DIRECTORS** HAVE TAKEN ADVANTAGE OF THE EXEMPTION FROM AUDIT DUE TO THE FACT THAT THE COMPANY IS DORMANT, AND THE COMPANY HAS DURING THE **FINANCIAL YEAR** IN QUESTION ACTED AS AN AGENT FOR ANY PERSON, THE FACT THAT IT HAS SO ACTED MUST BE STATED.

## Liability Limitation Agreement

- 2.39 WHERE EXEMPTION FROM AUDIT IS NOT AVAILABLE, OR THE DIRECTORS HAVE NOT TAKEN ADVANTAGE OF THE EXEMPTION FROM AUDIT AND THE COMPANY HAS ENTERED INTO A LIABILITY LIMITATION AGREEMENT WITH ITS AUDITORS, THE NOTES TO THE ACCOUNTS MUST DISCLOSE THE PRINCIPAL TERMS OF THE AGREEMENT AND EITHER THE DATE OF THE RESOLUTION APPROVING THE AGREEMENT OR THE AGREEMENT'S PRINCIPAL TERMS OR THE DATE OF THE RESOLUTION WAIVING THE NEED FOR SUCH APPROVAL.

## 3 Profit and loss account

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### General

- 3.1 All gains and losses **recognised** in the financial statements for the period shall be included in the profit and loss account or the statement of **total recognised gains and losses**. ONLY PROFITS THAT ARE REALISED AT THE BALANCE SHEET DATE MUST BE INCLUDED IN THE PROFIT AND LOSS ACCOUNT. ALL LIABILITIES WHICH HAVE ARISEN IN RESPECT OF THE PERIOD OR IN RESPECT OF A PREVIOUS FINANCIAL YEAR MUST BE TAKEN INTO ACCOUNT, INCLUDING THOSE WHICH ONLY BECOME APPARENT BETWEEN THE BALANCE SHEET DATE AND THE DATE ON WHICH IT IS SIGNED.
- 3.2 Gains and losses may be excluded from the profit and loss account only if they are specifically permitted or required to be taken direct to reserves by this standard or by **companies legislation** or equivalent legislation.
- 3.3 WHERE AN AMOUNT RELATING TO ANY PRECEDING **FINANCIAL YEAR** IS INCLUDED IN THE PROFIT AND LOSS ACCOUNT, THE EFFECT OF ITS INCLUSION MUST BE STATED.
- 3.4 IF THE COMPANY HAS SUPPLIED GEOGRAPHICAL MARKETS OUTSIDE THE UNITED KINGDOM DURING THE **FINANCIAL YEAR**, THE PERCENTAGE OF TURNOVER THAT IS ATTRIBUTABLE TO THOSE MARKETS MUST BE SEPARATELY DISCLOSED. IN ANALYSING THE SOURCE OF TURNOVER, REGARD MUST BE PAID TO THE MANNER IN WHICH THE COMPANY'S ACTIVITIES ARE ORGANISED.

### Exceptional items

- 3.5 All **exceptional items**, other than those included in the items listed in the next paragraph, shall be credited or charged in arriving at the profit or loss on **ordinary activities** by inclusion under the statutory format headings to which they relate. The amount of each **exceptional item**, either individually or as an aggregate of items of a similar type, shall be disclosed separately by way of a note, or on the face of the profit and loss account if that degree of prominence is necessary in order to give a true and fair view. An adequate description of each **exceptional item** shall be given to enable its nature to be understood. THE EFFECT MUST BE STATED OF ANY TRANSACTIONS THAT ARE EXCEPTIONAL BY VIRTUE OF SIZE OR INCIDENCE THOUGH THEY FALL WITHIN THE ORDINARY ACTIVITIES OF THE COMPANY.
- 3.6 The following items, including provisions in respect of such items, shall be shown separately on the face of the profit and loss account after operating profit (which is normally profit before income from shares in group undertakings) and before interest:
- (a) profits or losses on the sale or termination of an operation;
  - (b) costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the reporting entity's operations; and
  - (c) profits or losses on the disposal of fixed assets.

## Profit or loss on disposal

- 3.7 The profit or loss on the disposal of an asset shall be accounted for in the profit and loss account of the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost (less any provisions made) or at a valuation. Profit or loss on disposal of a previously acquired business shall include the attributable amount of **purchased goodwill** that has previously been eliminated against reserves as a matter of **accounting policy** and has not previously been charged in the profit and loss account.

## Disclosure of auditor remuneration

- 3.8 WHERE A SMALL COMPANY CHOOSES NOT TO TAKE ADVANTAGE OF THE EXEMPTION IN THE COMPANIES ACT 2006 RELATING TO THE AUDIT OF ACCOUNTS, THE REMUNERATION OF THE COMPANY'S AUDITOR, INCLUDING SUMS PAID IN RESPECT OF EXPENSES, MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS, INCLUDING THE NATURE AND ESTIMATED MONETARY VALUE OF ANY BENEFITS IN KIND. WHERE MORE THAN ONE PERSON HAS BEEN APPOINTED AS A COMPANY'S AUDITOR IN RESPECT OF THE PERIOD TO WHICH THE ACCOUNTS RELATE, SEPARATE DISCLOSURE IS REQUIRED IN RESPECT OF THE REMUNERATION OF EACH SUCH PERSON.

## 4 Revenue recognition

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### Basic principles<sup>27</sup>

- 4.1 A seller recognises revenue under an **exchange transaction** with a customer when, and to the extent that, it obtains the **right to consideration** in exchange for its **performance**. At the same time, it typically recognises a new asset, usually a debtor.
- 4.2 When a seller receives payment from a customer in advance of **performance**, it recognises a liability equal to the amount received, representing its **obligation** under the contract. When the seller obtains the **right to consideration** through its **performance**, that liability is reduced and the amount of the reduction in the liability is simultaneously reported as revenue.
- 4.3 A seller may obtain a **right to consideration** when some, but not all, of its contractual **obligations** have been fulfilled. Where a seller has partially performed its contractual **obligations**, it recognises revenue to the extent that it has obtained the **right to consideration** through its **performance**.
- 4.4 Revenue shall be measured at the **fair value** of the **right to consideration**. Subject to paragraphs 4.5-4.6 or other evidence to the contrary, this will normally be the price specified in the contractual arrangement, net of discounts, value added tax and similar sales taxes.
- 4.5 Where the effect of the time value of money is material to reported revenue, the amount of revenue **recognised** shall be the present value of the cash inflows expected to be received from the customer in settlement. The unwinding of the discount shall be credited to finance income as this represents a gain from a financing transaction.
- 4.6 Where at the time revenue is **recognised** on a transaction there is a significant risk that there will be default on the amount of consideration due and the effect is material to reported revenue, an adjustment to the price specified in the contractual arrangement will be necessary to arrive at the amount of revenue to be **recognised**.

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<sup>27</sup> Guidance on the practical considerations for recognising revenue in respect of service contracts, bill and hold arrangements, presentation of turnover as principal or as agent and sales with rights of return is given in Appendix III.

- 4.7 Subsequent adjustments to a debtor as a result of changes in the time value of money and credit risk shall not be included within revenue.

### **Turnover**

- 4.8 Turnover (which may be described as 'sales' in a seller's financial statements) is the revenue resulting from **exchange transactions** under which a seller supplies to customers the goods or services that it is in business to provide.<sup>28</sup>
- 4.9 A seller may enter into other **exchange transactions** such as the sale of fixed assets. Such transactions do not normally give rise to turnover, as they do not normally fall within the class of transactions set out in paragraph 4.8.

### **Contracts for services**

- 4.10 Where there are distinguishable phases of a single contract it may be appropriate to account for the contract as two or more separate transactions, provided the value of each phase can be reliably estimated.
- 4.11 Contracts for services should not be accounted for as long-term contracts unless they involve the provision of a single service, or a number of services that constitute a single project.
- 4.12 A contract for services should be accounted for as a long-term contract where contract activity falls into different accounting periods and it is concluded that the effect is material. In determining whether contracts should be accounted for as long-term contracts, the aggregate effect of all such contracts on the financial statements as a whole should be considered.
- 4.13 Where the substance of a contract is that the seller's contractual obligations are performed gradually over time, revenue should be recognised as contract activity progresses to reflect the seller's partial performance of its contractual obligations. The amount of revenue should reflect the accrual of the right to consideration as contract activity progresses by reference to value of the work performed.
- 4.14 Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs. This only applies where the right to consideration is conditional or contingent on a specified future event or outcome, the occurrence of which is outside the control of the seller.
- 4.15 The amount of revenue recognised on any contract for services should reflect any uncertainties as to the amount that the customer will accept and pay.

## **5 Statement of total recognised gains and losses**

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- 5.1 A primary statement shall be presented, with the same prominence as the profit and loss account, showing the **total of recognised gains and losses** and its components. The components shall be the gains and losses that are **recognised** in the period insofar as they are attributable to shareholders, excluding transactions with shareholders.<sup>29</sup> Where the only **recognised** gains and losses are the results included in the profit and loss account no separate statement to this effect need be made.

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<sup>28</sup> These transactions are often referred to as being part of the seller's operating activities.

<sup>29</sup> An illustration of a statement of total recognised gains and losses is given in Appendix III.



## 6 Fixed assets and goodwill

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### Disclosure

- 6.1 THE FOLLOWING INFORMATION MUST BE PROVIDED FOR ALL FIXED ASSETS AND GOODWILL:
- (A) THE COST OR VALUATION AT THE BEGINNING AND THE END OF THE YEAR; AND
  - (B) THE EFFECT OF ANY:
    - (I) REVALUATION MADE DURING THE YEAR;
    - (II) ACQUISITIONS DURING THE YEAR;
    - (III) DISPOSALS DURING THE YEAR; AND
    - (IV) TRANSFERS DURING THE YEAR.
- 6.2 THE FOLLOWING INFORMATION MUST BE PROVIDED IN RESPECT OF PROVISIONS FOR DEPRECIATION OR DIMINUTION IN VALUE:
- (A) THE CUMULATIVE AMOUNT OF SUCH PROVISIONS AS AT THE BEGINNING AND END OF THE YEAR;
  - (B) THE AMOUNT OF ANY SUCH PROVISIONS MADE DURING THE YEAR;
  - (C) THE AMOUNT OF ANY ADJUSTMENTS MADE ON DISPOSAL DURING THE YEAR; AND
  - (D) THE AMOUNT OF ANY OTHER ADJUSTMENTS MADE DURING THE YEAR.

### Research and development

- 6.3 The cost of fixed assets acquired or constructed in order to provide facilities for **research and development** activities over a number of accounting periods shall be capitalised and written off over their useful lives through the profit and loss account.
- 6.4 Expenditure on **pure** and **applied research** shall be written off in the period of expenditure through the profit and loss account.
- 6.5 **Development** expenditure shall be written off in the period of expenditure except in the following circumstances when it may be deferred to future periods:
- (a) there is a clearly defined project; and
  - (b) the related expenditure is separately identifiable; and
  - (c) the outcome of such a project has been assessed with reasonable certainty as to:
    - (i) its technical feasibility; and
    - (ii) its ultimate commercial viability considered in the light of factors such as likely market conditions (including competing products), public opinion, consumer and environmental legislation; and
  - (d) the aggregate of the deferred **development** costs, any further **development** costs, and related production, selling and administration costs is reasonably expected to be exceeded by related future sales or other revenues; and
  - (e) adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.
- 6.6 In the foregoing circumstances **development** expenditure may be deferred to the extent that its recovery can be reasonably regarded as assured.

- 6.7 If an **accounting policy** of deferral of **development** expenditure is adopted, it shall be applied to all **development** projects that meet the criteria in paragraph 6.5.
- 6.8 If **development** costs are deferred to future periods, they shall be amortised. The amortisation shall commence with the commercial production or application of the product, service, process or system and shall be allocated on a systematic basis to each accounting period, by reference to either the sale or use of the product, service, process or system or the period over which these are expected to be sold or used.
- 6.9 Deferred **development** expenditure for each product shall be reviewed at the end of each accounting period and where the circumstances that justified the deferral of expenditure no longer apply, or are considered doubtful, the expenditure, to the extent to which it is considered to be irrecoverable, shall be written off immediately project by project.
- 6.10 The amount of deferred **development** expenditure carried forward at the beginning and end of the period shall be disclosed under **intangible assets** in the balance sheet or in the notes to the balance sheet. THE REASON FOR CAPITALISING THESE COSTS AND THE PERIOD OVER WHICH THEY ARE BEING DEPRECIATED MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS. IF **DEVELOPMENT** COSTS ARE NOT TREATED AS A REALISED LOSS, THIS MUST BE STATED TOGETHER WITH AN EXPLANATION OF THE CIRCUMSTANCES RELIED UPON BY THE **DIRECTORS** TO JUSTIFY THEIR DECISION.

#### **Other intangible assets and goodwill**

- 6.11 **Positive purchased goodwill** and purchased **intangible assets** shall be capitalised. Internally generated goodwill and intangible assets shall not be capitalised.
- 6.12 An **intangible asset** purchased with a business shall be **recognised** separately from the **purchased goodwill** if its value can be measured reliably.
- 6.13 Capitalised goodwill and **intangible assets** shall be considered to have a finite useful life, and shall be **depreciated** on a straight-line (or more appropriate) basis over their **useful economic lives**. If an entity is unable to make a reliable estimate of the useful life of goodwill or intangible assets, the life shall be presumed not to exceed five years. THE PERIOD CHOSEN FOR DEPRECIATING GOODWILL AND THE REASONS FOR CHOOSING THAT PERIOD MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS.
- 6.14 The **residual value** assigned to goodwill shall be zero. A higher **residual value** may be assigned to an **intangible asset** only when this value can be established reliably, for example when it has been agreed contractually.
- 6.15 **Useful economic lives** shall be reviewed at the end of each reporting period and revised if necessary, subject to the constraint that the revised life shall not exceed 20 years from the date of acquisition. The carrying amount at the date of revision shall be **depreciated** over the revised estimate of remaining **useful economic life**.
- 6.16 Goodwill and **intangible assets** shall not be revalued.
- 6.17 If an acquisition appears to give rise to negative goodwill, **fair values** shall be checked to ensure that those of the acquired **assets** have not been overstated and those of the acquired **liabilities** have not been understated. Once this has been done, remaining negative goodwill up to the **fair values** of the non-monetary **assets** acquired shall be released in the profit and loss account over the lives of those assets. Any additional negative goodwill shall be **recognised** in the profit and loss account over the period expected to benefit from it. The amount of negative goodwill on the balance sheet and the period(s) in which it is being written back shall be disclosed.

## Tangible fixed assets

- 6.18 Paragraphs 6.19-6.26 apply to all **tangible fixed assets** other than **investment properties**.
- 6.19 A **tangible fixed asset** shall initially be measured at its cost, then written down to its **recoverable amount** if necessary. The initial carrying amount of a **tangible fixed asset** received as a gift or donation by a charity shall be its current value, i.e. the lower of replacement cost and **recoverable amount**, at the date it is received.<sup>30</sup> WHERE THERE IS NO RECORD OF THE PURCHASE PRICE OR PRODUCTION COST OF AN ASSET, OR ANY SUCH RECORD CANNOT BE OBTAINED WITHOUT UNREASONABLE EXPENSE OR DELAY, THE VALUE ASCRIBED MUST BE THE EARLIEST AVAILABLE RECORD OF ITS VALUE. PARTICULARS MUST BE GIVEN OF ANY CASE WHERE THE PURCHASE PRICE OR PRODUCTION COST OF ANY ASSET IS FOR THE FIRST TIME DETERMINED IN THIS WAY.
- 6.20 Costs that are directly attributable to bringing the **tangible fixed asset** into working condition for its intended use shall be included in its measurement. Other costs shall not be included. An entity may adopt an **accounting policy** of capitalising **finance costs** (such as interest). Where such a policy is adopted, **finance costs** that are directly attributable to the construction of **tangible fixed assets** shall be capitalised as part of the cost of those assets. The total amount of **finance costs** capitalised during a period shall not exceed the total amount of **finance costs** incurred during that period. WHERE APPLICABLE, THE NOTES TO THE ACCOUNTS MUST DISCLOSE THAT FINANCE COSTS ARE INCLUDED IN DETERMINING THE COST OF THE ASSET AND THE AMOUNT OF FINANCE COSTS SO INCLUDED.
- 6.21 Capitalisation of directly attributable costs, including **finance costs**, shall be suspended during extended periods in which active **development** is interrupted. Capitalisation shall cease when substantially all the activities that are necessary to get the **tangible fixed asset** ready for use are complete, even if the asset has not yet been brought into use.
- 6.22 Subsequent expenditure shall be capitalised only if:
- (a) it enhances the economic benefits of a **tangible fixed asset** in excess of the previously assessed standard of performance (i.e. if it is an 'improvement'); or
  - (b) it replaces or restores a component that has been separately depreciated over its **useful economic life**.
- Otherwise it shall be **recognised** in the profit and loss account as it is incurred.
- 6.23 Where an entity adopts an **accounting policy** of revaluation in respect of a **tangible fixed asset**, its carrying amount shall be its market value (or the best estimate thereof) as at the balance sheet date. Where the **directors** believe that market value is not an appropriate basis, current value (i.e. the lower of replacement cost and **recoverable amount**) may be used instead. Where a **tangible fixed asset** is revalued, all **tangible fixed assets** of the same class (i.e. having a similar nature, function or use in the business) shall be revalued, but a policy of revaluation need not be applied to all classes of **tangible fixed assets**.
- 6.24 It may be possible to establish with reasonable **reliability** the values of certain **tangible fixed assets**, other than properties, by reference to active second-hand markets or appropriate publicly available indices. For other **tangible fixed assets**, including properties, a valuation shall be performed by an experienced valuer (i.e. one who has

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<sup>30</sup> Generally, where issues of practicality or of cost-benefit arise, these will be addressed in the relevant sector-specific guidance and Statements of Recommended Practice (SORPs).

recognised and relevant recent professional experience, and sufficient knowledge of the state of the market, in the location and category of the **tangible fixed asset** being valued) at least every five years. It shall be updated by an experienced valuer in the intervening years where it is likely that there has been a material change in value.<sup>31</sup>

- 6.25 Revaluation losses caused only by changing market prices shall be **recognised** in the statement of **total recognised gains and losses** until the carrying amount of the asset reaches its depreciated historical cost. Other revaluation losses shall be **recognised** in the profit and loss account.
- 6.26 Revaluation gains shall be **recognised** in the statement of **total recognised gains and losses**, except to the extent (after adjusting for subsequent **depreciation**) that they reverse revaluation losses on the same asset that were previously **recognised** in the profit and loss account. To that extent they shall be **recognised** in the profit and loss account. The adjustment for subsequent **depreciation** is to achieve the same overall effect that would have been reached had the original downward revaluation reflected in the profit and loss account not occurred.
- 6.27 WHERE **TANGIBLE FIXED ASSETS** HAVE BEEN REVALUED EITHER – THE COMPARABLE AMOUNTS DETERMINED UNDER THE HISTORICAL COST ACCOUNTING RULES (i.e. the aggregate historical cost amount that would have been included had the **assets** not been revalued, reflecting any write-downs to **recoverable amount** that would have been necessary); OR THE DIFFERENCES BETWEEN THOSE AMOUNTS AND THE CORRESPONDING AMOUNTS ACTUALLY SHOWN IN THE BALANCE SHEET MUST BE SHOWN SEPARATELY IN THE BALANCE SHEET OR IN A NOTE TO THE ACCOUNTS.
- 6.28 WHERE TANGIBLE FIXED ASSETS ARE CONSTANTLY BEING REPLACED AND THEIR VALUE IS NOT MATERIAL TO ASSESSING THE COMPANY'S STATE OF AFFAIRS AND THEIR QUANTITY, VALUE AND COMPOSITION ARE NOT SUBJECT TO MATERIAL VARIATION, THEY MAY BE INCLUDED AT A FIXED QUANTITY AND VALUE.
- 6.29 WHERE TANGIBLE FIXED ASSETS HAVE BEEN REVALUED, THE YEAR IN WHICH THEY WERE VALUED MUST BE DISCLOSED. IN THE CASE OF ASSETS THAT HAVE BEEN REVALUED DURING THE CURRENT **FINANCIAL YEAR**, THE NAMES OF THE PERSONS WHO VALUED THEM OR PARTICULARS OF THEIR QUALIFICATIONS FOR DOING SO AND THE BASES OF THE VALUATION MUST BE DISCLOSED.

### **Investments**

- 6.30 FIXED ASSET INVESTMENTS MUST INITIALLY BE MEASURED AT COST. ALTERNATIVELY, THEY MAY BE MEASURED AT A MARKET VALUE DETERMINED AS AT THE DATE OF THEIR LAST VALUATION OR ON ANY OTHER VALUE DETERMINED ON A BASIS WHICH APPEARS TO THE **DIRECTORS** TO BE APPROPRIATE IN THE CIRCUMSTANCES OF THE COMPANY (IN THE LATTER CASE, THE METHOD OF VALUATION ADOPTED AND OF THE REASONS FOR ADOPTING IT MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS). Gains and losses shall be **recognised** (in the profit and loss account or statement of **total recognised gains and losses**) using the same basis applied to **tangible fixed assets** in paragraphs 6.25 and 6.26 above.
- 6.31 WHERE FIXED ASSET INVESTMENTS HAVE BEEN REVALUED EITHER – THE COMPARABLE AMOUNTS DETERMINED UNDER THE HISTORICAL COST ACCOUNTING RULES (i.e. the aggregate historical cost amount that would have been included had the **assets** not been revalued, reflecting any write-downs to **recoverable amount** that would have been necessary); OR THE DIFFERENCES BETWEEN THOSE AMOUNTS AND THE CORRESPONDING AMOUNTS ACTUALLY SHOWN IN THE BALANCE SHEET MUST BE SHOWN SEPARATELY IN THE BALANCE SHEET OR IN A NOTE TO THE ACCOUNTS.

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<sup>31</sup> Where, for cost/benefit reasons, alternative approaches are set out in relevant sector-specific guidance and SORPs, these may be adopted instead of the approach in paragraph 6.24.

6.32 THE AGGREGATE AMOUNT OF LISTED INVESTMENTS INCLUDED UNDER EACH ITEM OF INVESTMENTS SHOWN IN THE BALANCE SHEET MUST BE DISCLOSED. FOR EACH ITEM WHICH INCLUDES LISTED INVESTMENTS, THE FOLLOWING MUST BE DISCLOSED:

- (A) THE AGGREGATE MARKET VALUE OF THE LISTED INVESTMENTS WHERE IT DIFFERS FROM THEIR BALANCE SHEET AMOUNT; AND
- (B) BOTH THE MARKET VALUE AND THE STOCK EXCHANGE VALUE OF ANY INVESTMENTS, OF WHICH THE MARKET VALUE IS TAKEN AS BEING HIGHER THAN THE STOCK EXCHANGE VALUE.

6.33 WHERE THE COMPANY HAS, AT THE END OF THE **FINANCIAL YEAR**, A SIGNIFICANT HOLDING IN AN UNDERTAKING (WHICH IS NOT A SUBSIDIARY UNDERTAKING OF THE COMPANY) WHICH REPRESENTS 20 PER CENT OR MORE OF THE NOMINAL VALUE OF ANY CLASS OF SHARES IN THE UNDERTAKING, OR MORE THAN 20 PER CENT OF THE BOOK VALUE OF THE INVESTING COMPANY'S TOTAL ASSETS, THE FOLLOWING MUST BE STATED IN RELATION TO THAT UNDERTAKING:<sup>32,33,34</sup>

- (A) THE NAME OF THE UNDERTAKING;
- (B) IF THE UNDERTAKING IS INCORPORATED OUTSIDE THE UNITED KINGDOM, THE COUNTRY IN WHICH IT IS INCORPORATED;
- (C) IF IT IS UNINCORPORATED, THE ADDRESS OF ITS PRINCIPAL PLACE OF BUSINESS;
- (D) THE IDENTITY AND PROPORTION OF THE NOMINAL VALUE OF EACH CLASS OF SHARES HELD;
- (E) THE AGGREGATE AMOUNT OF THE CAPITAL AND RESERVES OF THE UNDERTAKING AS AT THE END OF THE MOST RECENT **FINANCIAL YEAR** ENDING WITH OR BEFORE THAT OF THE INVESTING COMPANY; AND
- (F) ITS PROFIT OR LOSS FOR THAT YEAR.

#### **Revaluation reserve**

6.34 GAINS AND LOSSES ARISING ON THE REVALUATION OF **ASSETS** THAT HAVE BEEN **RECOGNISED** IN THE STATEMENT OF **TOTAL RECOGNISED GAINS AND LOSSES** MUST BE CREDITED, OR DEBITED, TO A SEPARATE REVALUATION RESERVE.

6.35 AMOUNTS MAY BE TRANSFERRED FROM THE REVALUATION RESERVE TO THE PROFIT AND LOSS ACCOUNT WHEN THEY ARE REALISED. FOR **TANGIBLE FIXED ASSETS**, THIS WILL NORMALLY RESULT IN AN ANNUAL TRANSFER FROM THE REVALUATION RESERVE TO THE PROFIT AND LOSS ACCOUNT OVER THE **USEFUL ECONOMIC LIFE** OF THE **ASSET** (I.E. IN LINE WITH THE **DEPRECIATION** CHARGE). REALISATION MAY ALSO OCCUR ON THE EVENTUAL DISPOSAL OF THE **ASSET**.

6.36 THE TREATMENT FOR TAXATION PURPOSES OF AMOUNTS CREDITED OR DEBITED TO THE REVALUATION RESERVE MUST BE DISCLOSED IN A NOTE TO THE ACCOUNTS.

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<sup>32</sup> If the directors of the company are of opinion the number of undertakings in respect of which the company is required to disclose information is such that compliance would result in information of excessive length being given, the information need only be given in respect of the undertakings principally affecting the figures shown in the company's annual accounts. Where the disclosures are limited in this way, the notes shall include a statement that the information is given only with respect to such undertakings and full details must be annexed to the company's next annual return.

<sup>33</sup> INFORMATION NEED NOT BE DISCLOSED WITH RESPECT TO AN UNDERTAKING WHICH IS ESTABLISHED UNDER THE LAW OF A COUNTRY OUTSIDE THE UNITED KINGDOM OR CARRIES ON BUSINESS OUTSIDE THE UNITED KINGDOM, IF IN THE OPINION OF THE DIRECTORS OF THE COMPANY THE DISCLOSURE WOULD BE SERIOUSLY PREJUDICIAL TO THE BUSINESS OF THAT UNDERTAKING, OR TO THE BUSINESS OF THE COMPANY OR ANY OF ITS SUBSIDIARY UNDERTAKINGS, AND THE SECRETARY OF STATE AGREES THAT THE INFORMATION NEED NOT BE DISCLOSED. WHERE ADVANTAGE IS TAKEN OF THIS, THAT FACT SHALL BE STATED IN A NOTE TO THE COMPANY'S ANNUAL ACCOUNTS. THIS STATUTORY EXEMPTION IS NOT AVAILABLE IN THE REPUBLIC OF IRELAND.

<sup>34</sup> Disclosure requirements for holdings in subsidiary undertakings are set out in paragraphs 15.17.

## Depreciation

- 6.37 Paragraphs 6.38-6.43 apply to all **tangible fixed assets** other than **investment properties**.
- 6.38 The cost (or revalued amount) less estimated **residual value** of a **tangible fixed asset** shall be depreciated on a systematic basis over its **useful economic life**. The **depreciation** method used shall reflect as fairly as possible the pattern in which the asset's economic benefits are consumed by the entity. The **depreciation** charge for each period shall be **recognised** as an expense in the profit and loss account unless it is permitted to be included in the carrying amount of another **asset**.
- 6.39 Where a **tangible fixed asset** comprises two or more major components with substantially different **useful economic lives**, each component shall be accounted for separately for **depreciation** purposes and depreciated over its individual **useful economic life**. With certain exceptions, such as sites used for extractive purposes or landfill, land has an unlimited life and therefore is not depreciated.
- 6.40 The **useful economic lives** and **residual values** of **tangible fixed assets** shall be reviewed regularly and, when necessary, revised. On revision, the carrying amount of the **tangible fixed asset** at the date of revision less the revised **residual value** shall be depreciated over the revised remaining **useful economic life**.
- 6.41 A change from one method of providing **depreciation** to another is permissible only on the grounds that the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of **accounting policy**; the carrying amount of the **tangible fixed asset** is depreciated using the revised method over the remaining **useful economic life**, beginning in the period in which the change is made.
- 6.42 The following shall be disclosed in the financial statements for (1) land and buildings and (2) other **tangible fixed assets** in aggregate:
- (a) the **depreciation** methods used;
  - (b) the useful economic lives or the depreciation rates used; and
  - (c) where material, the financial effect of a change during the period in either the estimate of **useful economic lives** or the estimate of **residual values**.
- 6.43 Where there has been a change in the **depreciation** method used, the effect, if material, shall be disclosed in the period of change. The reason for the change shall also be disclosed.

## Write-downs to recoverable amount

- 6.44 Paragraphs 6.45-6.48 apply to capitalised goodwill and all fixed assets (i.e. **tangible fixed assets**, **intangible assets** and investments) except **investment properties** and financial instruments (other than investments in subsidiaries, associates and joint ventures).
- 6.45 Fixed assets and goodwill shall be carried in the balance sheet at no more than **recoverable amount**. If the net book amount of a fixed asset or goodwill is considered not to be recoverable in full at the balance sheet date, the net book amount shall be written down to the estimated **recoverable amount**, which shall then be written off over the remaining **useful economic life** of the asset.
- 6.45A At each reporting date an assessment shall be carried out of whether there is any indication that an asset should be written down (ie whether its carrying amount is more

- than its recoverable amount). If any such indication exists, the recoverable amount of the asset shall be estimated. If there is no indication that an asset should be written down, it is not necessary to estimate the recoverable amount.
- 6.45B In assessing whether there is any indication that an asset should be written down, the following might be considered:
- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
  - (b) Significant changes with an adverse effect on an asset, or the entity, have taken place during the period, or will take place in the near future, (for example external factors such as technological, market, economic or legal changes or internal factors such as the asset becoming idle, or plans to dispose of an asset before the previously expected date).
  - (c) Market interest rates have increased during the period, and those increases are likely to affect materially the asset's recoverable amount.
  - (d) Evidence is available of obsolescence or physical damage of an asset.
  - (e) Evidence is available from internal reporting that indicates that operating results or cash flows from the use of the asset are, or will be, worse than expected.
- 6.45C If there is an indication that an asset should be written down, this may indicate that the entity should review the remaining useful economic life, the depreciation method or the residual value of the asset and adjust it in accordance with paragraph 6.40 even if no loss is recognised for writing down the asset.
- 6.46 If the **recoverable amount** of a **tangible fixed asset** or investment subsequently increases as a result of a change in economic conditions or in the expected use of the asset, the net book amount shall be written back to the lower of **recoverable amount** and the amount at which the asset would have been recorded had the original write-down not been made.
- 6.47 If the **recoverable amount** of an **intangible asset** or capitalised goodwill subsequently increases, the net book amount shall be written back only if an external event caused the original write-down and subsequent external events clearly and demonstrably reverse the effects of that event in a way that was not foreseen when the original write-down was calculated.
- 6.48 Write-downs (and any reversals) to **recoverable amount** shall be charged (or credited) in the profit and loss account for the period. However, write-downs of revalued **tangible fixed assets** that reverse previous revaluation gains simply as a result of changing market prices shall instead be **recognised** in the statement of **total recognised gains and losses**, to the extent that the carrying amount of the asset is greater than its depreciated historical cost. ANY AMOUNTS WHICH ARE NOT SHOWN IN THE PROFIT AND LOSS ACCOUNT MUST BE DISCLOSED (EITHER SEPARATELY OR IN AGGREGATE) IN A NOTE TO THE ACCOUNTS.
- 6.49 WHERE FIXED ASSETS ARE NOT ACTUALLY REVALUED IN THE BALANCE SHEET BUT THEIR VALUE IS CONSIDERED BY THE **DIRECTORS**, A NOTE TO THE ACCOUNTS MUST STATE THE FOLLOWING:
- (A) THAT THE **DIRECTORS** HAVE CONSIDERED THE VALUE OF SOME OR ALL OF THE FIXED ASSETS OF THE COMPANY, WITHOUT ACTUALLY REVALUING THOSE ASSETS;
  - (B) THAT THE **DIRECTORS** ARE SATISFIED THAT THE AGGREGATE VALUE OF THOSE ASSETS AT THE TIME IN QUESTION IS OR WAS NOT LESS THAN THE AGGREGATE AMOUNT AT WHICH THEY WERE THEN STATED IN THE COMPANY'S ACCOUNTS; AND
  - (C) THE ASSETS AFFECTED ARE ACCORDINGLY STATED IN THE ACCOUNTS ON THE BASIS THAT A REVALUATION OF THE COMPANY'S FIXED ASSETS TOOK PLACE AT THAT TIME.

## Investment properties

- 6.50 **Investment properties** shall not be subject to periodic charges for **depreciation** except for properties held on lease, which shall be **depreciated** at least over the period when the unexpired term is 20 years or less.
- 6.51 **Investment properties** shall be included in the balance sheet at their market value and the carrying value shall be displayed prominently either on the face of the balance sheet or in the notes.
- 6.52 The names of the persons making the valuation, or particulars of their qualifications, shall be disclosed together with the bases of valuation used by them. If a person making a valuation is an employee or officer of the company or group that owns the property this fact shall be disclosed.
- 6.53 Changes in the market value of **investment properties** shall not be taken to the profit and loss account but shall be taken to the statement of **total recognised gains and losses** (being a movement on an investment revaluation reserve), unless a deficit (or its reversal) on an individual **investment property** is expected to be permanent, in which case it shall be charged (or credited) in the profit and loss account of the period.

## Government grants<sup>35</sup>

- 6.54 Subject to paragraph 6.55, **government grants** shall be **recognised** in the profit and loss account so as to match them with the expenditure towards which they are intended to contribute. To the extent that the grant is made as a contribution towards expenditure on a fixed asset, in principle it may be deducted from the purchase price or production cost of that asset. However, the option to deduct **government grants** from the purchase price or production costs of fixed assets is not available to companies governed by the accounting and reporting requirements of UK **companies legislation**. In such cases, the amount so deferred shall be treated as deferred income.
- 6.55 A **government grant** shall not be **recognised** in the profit and loss account until the conditions for its receipt have been complied with and there is reasonable assurance that the grant will be received.
- 6.56 Potential liabilities to repay grants either in whole or in part in specified circumstances shall be provided for only to the extent that repayment is probable. The repayment of a **government grant** shall be accounted for by setting off the repayment against any unamortised deferred income relating to the grant. Any excess shall be charged immediately to the profit and loss account.
- 6.57 The following information shall be disclosed in the financial statements:
- (a) the effects of **government grants** on the results for the period and/or the financial position of the entity; and
  - (b) where the results of the period are affected materially by the receipt of forms of **government** assistance other than grants, the nature of that assistance and, to the extent that the effects on the financial statements can be measured, an estimate of those effects.

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<sup>35</sup> Additional specific legal requirements relating to government grants in the Republic of Ireland are included in the derivation tables on the FRC website.



## 7 Leases

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### Hire purchase and leasing

- 7.1 Those **hire purchase contracts** which are of a financing nature shall be accounted for on a basis similar to that set out below for **finance leases**. Conversely, other **hire purchase contracts** shall be accounted for on a basis similar to that set out below for **operating leases**.

### Accounting by lessees

- 7.2 A **finance lease** shall be recorded in the balance sheet of a lessee as an asset and as an **obligation** to pay future rentals. At the **inception** of the lease, the sum to be recorded both as an asset and as a liability shall normally be the **fair value** of the asset.
- 7.3 In those cases where the **fair value** of the asset does not give a realistic estimate of the cost to the lessee of the asset and of the **obligation** entered into, a better estimate shall be used. In principle this shall approximate to the present value of the **minimum lease payments**, derived by discounting them at the interest rate implicit in the lease. An example of where this might be used would be where the lessee has benefited from grants and capital allowances that enable the **minimum lease payments** under a **finance lease** to be adjusted to a total that is less than the **fair value** of the asset. A negative **finance charge** shall not be shown.
- 7.4 The total **finance charge** under a **finance lease** shall be allocated to accounting periods during the **lease term** so as to produce a constant periodic rate of charge on the remaining balance of the **obligation** for each accounting period, or a reasonable approximation thereto. The straight-line method may provide such a reasonable approximation.
- 7.5 The rental under an **operating lease** shall be charged on a straight-line basis over the **lease term** even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate.
- 7.6 Incentives to sign a lease, in whatever form they may take, shall be spread by the lessee on a straight-line basis over the **lease term** or, if shorter than the full **lease term**, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.
- 7.7 An **asset** leased under a **finance lease** shall be depreciated over the shorter of the **lease term** or its useful life. However, in the case of a **hire purchase contract** that has the characteristics of a **finance lease**, the asset shall be depreciated over its useful life.

### Accounting by lessors

- 7.8 The amount due from the lessee under a **finance lease** shall be recorded in the balance sheet of a lessor as a debtor at the amount of the **net investment** in the lease after making provisions for items such as bad and doubtful rentals receivable.
- 7.9 The total **gross earnings** under **finance leases** shall be **recognised** on a systematic and rational basis. This will normally be a constant periodic rate of return on the lessor's **net investment**.
- 7.10 Rental income from an **operating lease** shall be **recognised** on a straight-line basis over the period of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the time pattern in which the benefit from the **leased** asset is receivable.

- 7.11 An asset held for use in **operating leases** by a lessor shall be recorded as a fixed **asset** and **depreciated** over its useful life.

#### **Manufacturer/dealer lessor**

- 7.12 A manufacturer or dealer lessor shall not **recognise** a selling profit under an **operating lease**. The selling profit under a **finance lease** shall be restricted to the excess of the **fair value** of the **asset** over the manufacturer's or dealer's cost less any grants receivable by the manufacturer or dealer towards the purchase, construction or use of the **asset**.

#### **Sale and leaseback transactions – accounting by the seller/lessee**

- 7.13 In a sale and leaseback transaction that results in a **finance lease**, any apparent profit or loss (i.e. the difference between the sale price and the previous carrying value) shall be deferred and amortised in the financial statements of the seller/lessee over the shorter of the **lease term** and the useful life of the **asset**.
- 7.14 If the leaseback is an **operating lease**:
- (a) any profit or loss shall be **recognised** immediately, provided it is clear that the transaction is established at **fair value**;
  - (b) if the sale price is below **fair value** any profit or loss shall be **recognised** immediately, except that if the apparent loss is compensated for by future rentals at below market price it shall to that extent be deferred and amortised over the remainder of the **lease term** (or, if shorter, the period during which the reduced rentals are chargeable); or
  - (c) if the sale price is above **fair value**, the excess over **fair value** shall be deferred and amortised over the shorter of the remainder of the **lease term** and the period to the next rent review (if any).

#### **Sale and leaseback transactions – accounting by the buyer/lessor**

- 7.15 A buyer/lessor shall account for a sale and leaseback in the same way as other leases are accounted for, i.e. using the methods set out in paragraphs 7.8-7.12.

#### **Disclosure by lessees**

- 7.16 Disclosure shall be made of:
- (a) either:
    - (i) the gross amounts of **assets** that are held under **finance leases** together with the related accumulated **depreciation** for (1) land and buildings and (2) other fixed **assets** in aggregate; or
    - (ii) alternatively to being shown separately from that in respect of owned fixed **assets**, the information in (i) above may be integrated with it, such that the totals of gross amount, accumulated **depreciation**, net amount and **depreciation** allocated for the period for (1) land and buildings and (2) other fixed assets in aggregate for **assets** held under **finance leases** are included with similar amounts for owned fixed **assets**. Where this alternative treatment is adopted, the net amount of **assets** held under **finance leases** and the amount of **depreciation** allocated for the period in respect of **assets** under **finance leases** included in the overall total shall be disclosed separately.
  - (b) the amounts of **obligations** related to **finance leases** (net of **finance charges** allocated to future periods). These shall be disclosed separately from other

**obligations** and liabilities, either on the face of the balance sheet or in the notes to the accounts.

- (c) the amount of any commitments existing at the balance sheet date in respect of **finance leases** that have been entered into but whose **inception** occurs after the year end.

7.17 In respect of **operating leases**, the lessee shall disclose the payments that it is committed to make during the next year, analysed into those in which the commitment expires within that year, those expiring in the second to fifth years inclusive, and those expiring over five years from the balance sheet date.

### **Disclosure by lessors**

7.18 Disclosure shall be made of:

- (a) the gross amounts of **assets** held for use in **operating leases** and the related accumulated **depreciation** charges;
- (b) the cost of assets acquired, whether by purchase or **finance lease**, for the purpose of letting under **finance leases**; and
- (c) the **net investment** in (i) **finance leases** and (ii) **hire purchase contracts** at each balance sheet date.

## **8 Current assets**

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### **Stocks and long-term contracts**<sup>36</sup>

8.1 The amount at which stocks are stated in the financial statements shall be the total of the lower of cost and **net realisable value** of the separate items of stock or of groups of similar items.

8.2 WHERE THERE IS NO RECORD OF THE PURCHASE PRICE OR PRODUCTION COST OF STOCK THE VALUE ASCRIBED MUST BE THE EARLIEST AVAILABLE RECORD OF ITS VALUE. PARTICULARS MUST BE GIVEN OF ANY CASE WHERE THE PURCHASE PRICE OR PRODUCTION COST OF ANY ASSET IS FOR THE FIRST TIME DETERMINED IN THIS WAY.

8.3 FINANCE COSTS (SUCH AS INTEREST) THAT ARE DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF STOCK MAY BE INCLUDED AS PART OF THE COST. IN SUCH CIRCUMSTANCES, THE NOTES TO THE ACCOUNTS MUST DISCLOSE THAT FINANCE COSTS ARE INCLUDED IN DETERMINING THE COST OF THE **ASSET** AND THE AMOUNT OF FINANCE COSTS SO INCLUDED.

8.4 WHERE STOCKS ARE CONSTANTLY BEING REPLACED AND THEIR VALUE IS NOT MATERIAL TO ASSESSING THE COMPANY'S STATE OF AFFAIRS AND THEIR QUANTITY, VALUE AND COMPOSITION ARE NOT SUBJECT TO MATERIAL VARIATION, THEY MAY BE INCLUDED AT A FIXED QUANTITY AND VALUE.

8.5 DISTRIBUTION COSTS MAY NOT BE INCLUDED IN THE PRODUCTION COSTS OF STOCKS.

8.6 **Long-term contracts** shall be assessed on a contract-by-contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract, the business and the industry in which it operates.

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<sup>36</sup> Guidance on the practical considerations of arriving at amounts at which stocks and long-term contracts are stated in financial statements is given in Appendix III.

- 8.7 Where it is considered that the outcome of a **long-term contract** can be assessed with reasonable certainty before its conclusion, the prudently calculated **attributable profit** shall be **recognised** in the profit and loss account as the difference between the reported turnover and related costs for that contract.
- 8.8 **Long-term contracts** shall be disclosed in the balance sheet as follows:
- (a) The amount by which recorded turnover is in excess of payments on account shall be classified as 'amounts recoverable on contracts' and separately disclosed within debtors.
  - (b) The balance of payments on account (in excess of the amounts (i) matched with turnover and (ii) offset against **long-term contract** balances) shall be classified as payments on account and separately disclosed within creditors.
  - (c) The amount of **long-term contracts**, at costs incurred, net of amounts transferred to cost of sales, after deducting **foreseeable losses** and payments on account not matched with turnover, shall be classified as 'long-term contract balances' and separately disclosed within the balance sheet heading 'stocks'. The balance sheet note shall disclose separately the balances of:
    - (i) net cost less **foreseeable losses**; and
    - (ii) applicable payments on account.
  - (d) The amount by which the provision or accrual for **foreseeable losses** exceeds the costs incurred (after transfers to cost of sales) shall be included within either 'provisions for liabilities' or 'creditors' as appropriate.

#### **Consignment stock**<sup>37</sup>

- 8.9 Where **consignment stock** is in substance an **asset** of the dealer, the stock shall be **recognised** as such on the dealer's balance sheet, together with a corresponding liability to the manufacturer. Any deposit shall be deducted from the **liability** and the excess classified as a trade creditor. Where stock is not in substance an **asset** of the dealer, the stock shall not be included on the dealer's balance sheet until the transfer of title has crystallised. Any deposit shall be included under 'other debtors'.

#### **Debt factoring**<sup>38</sup>

- 8.10 Where the entity has transferred to the factor all significant benefits (i.e. the future cash flows from payment by the debtors) and all significant risks (i.e. slow payment risk and the risk of bad debts) relating to the debts, and has no **obligation** to repay the factor, the debts shall be removed from the entity's balance sheet and no **liability** shall be shown in respect of the proceeds received from the factor. A profit or loss shall be **recognised**, calculated as the difference between the carrying amount of the debts and the proceeds received.
- 8.11 Where the entity has retained significant benefits and risks relating to factored debts, and all the following conditions are met:
- (a) there is absolutely no doubt that the entity's exposure to loss is limited to a fixed monetary amount (e.g. because there is no recourse or such recourse has a fixed monetary ceiling);
  - (b) amounts received from the factor are secured only on the debts factored;
  - (c) the debts factored are capable of separate identification;

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<sup>37</sup> A table illustrating the considerations affecting the treatment of consignment stock is given in Appendix III.

<sup>38</sup> Similar arrangements, such as invoice discounting, shall be accounted for in the same way as debt factoring. A table illustrating the considerations affecting the treatment of debt factoring is given in Appendix III.

- (d) the debt factor has no recourse to other debts or assets;
- (e) the entity has no right to reacquire the debts in the future; and
- (f) the factor has no right to return the debts even in the event of the cessation of the factoring agreement,

then the factored debts shall be shown gross (after providing for bad debts, credit protection charges and any accrued interest) separately on the face of the balance sheet. Any amounts received from the factor in respect of those debts, to the extent that they are not returnable, shall be shown as deductions therefrom on the face of the balance sheet (a 'linked presentation'). The financial statements shall include a note stating that the entity is not required to support bad debts in respect of factored debts and that the factors have stated in writing that they will not seek recourse other than out of factored debts. The interest element of the factor's charges shall be **recognised** as it accrues and included in the profit and loss account with other interest charges.

- 8.12 In all other cases a separate presentation shall be adopted. A gross **asset** (equivalent in amount to the gross amount of the debts) shall be shown on the balance sheet of the entity within **assets** and a corresponding **liability** in respect of the proceeds received from the factor shall be shown within **liabilities**. The interest element of the factor's charges and other factoring costs shall be **recognised** as they accrue and included in the profit and loss account with other interest charges.

#### **Current asset investments**

- 8.13 CURRENT **ASSET** INVESTMENTS MUST INITIALLY BE STATED IN THE FINANCIAL STATEMENTS AT THE LOWER OF COST AND **NET REALISABLE VALUE**. ALTERNATIVELY, THEY MAY BE MEASURED AT THEIR CURRENT COST. Gains and losses shall be **recognised** (in the profit and loss account or statement of **total recognised gains and losses**) using the same basis applied to **tangible fixed assets** in paragraphs 6.25 and 6.26 above.
- 8.14 WHERE LISTED SHARES ARE HELD AS A CURRENT **ASSET** INVESTMENT, THE FOLLOWING INFORMATION MUST BE DISCLOSED:
- (A) THE AGGREGATE MARKET VALUE OF THOSE INVESTMENTS WHERE IT DIFFERS FROM THEIR BALANCE SHEET AMOUNT; AND
  - (B) BOTH THE MARKET VALUE AND THE STOCK EXCHANGE VALUE OF ANY INVESTMENTS, OF WHICH THE MARKET VALUE IS TAKEN AS BEING HIGHER THAN THE STOCK EXCHANGE VALUE.

#### **Start-up costs and pre-contract costs**

- 8.15 **Start-up costs** shall be accounted for on a basis consistent with the accounting treatment of similar costs incurred as part of the entity's on-going activities. In cases where there are no such similar costs, **start-up** costs that do not meet the criteria for **recognition** as **assets** under another specific requirement of the FRSSE shall be **recognised** as an expense when they are incurred. They shall not be carried forward as an **asset**.
- 8.16 **Pre-contract costs** shall be expensed as incurred, except that **directly attributable costs** shall be **recognised** as an **asset** when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows with a present value no less than all amounts **recognised** as an **asset**. Costs incurred before the **asset recognition** criteria are met shall not be **recognised** as an **asset**.

## 9 Taxation

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### General

- 9.1 **Tax** (current and **deferred**) shall be **recognised** in the profit and loss account, except to the extent that it is attributable to a gain or loss that is or has been **recognised** directly in the statement of **total recognised gains and losses** (in which case the tax shall also be **recognised** directly in that statement).
- 9.2 The material components of the (current and **deferred**) **tax** charge (or credit) for the period shall be disclosed separately.
- 9.3 Any special circumstances that affect the overall tax charge or credit for the period, or may affect those of future periods, shall be disclosed by way of a note to the profit and loss account and their individual effects quantified. The effects of a fundamental change in the basis of taxation shall be included in the tax charge or credit for the period and separately disclosed on the face of the profit and loss account.

### Deferred tax

- 9.4 **Deferred tax** shall be **recognised** in respect of all **timing differences** that have originated but not reversed by the balance sheet date; however, **deferred tax** shall not be **recognised** on:
- (a) revaluation gains and losses unless, by the balance sheet date, the entity has entered into a binding agreement to sell the **asset** and has revalued the **asset** to the selling price; or
  - (b) taxable gains arising on revaluations or sales if it is more likely than not that the gain will be rolled over into a replacement **asset**.
- 9.5 Unrelieved tax losses and other **deferred tax assets** shall be **recognised** only to the extent that it is more likely than not that they will be recovered against the reversal of **deferred tax liabilities** or other future taxable profits (the very existence of unrelieved tax losses is strong evidence that there may not be 'other future taxable profits' against which the losses will be relieved).
- 9.6 **Deferred tax** shall be **recognised** when the tax allowances for the cost of a fixed **asset** are received before or after the **depreciation** of the fixed **asset** is **recognised** in the profit and loss account. However, if and when all conditions for retaining the tax allowances have been met, the **deferred tax** shall be reversed.
- 9.7 Deferred tax shall not be recognised on permanent differences.
- 9.8 **Deferred tax** shall be measured at the average tax rates that would apply when the **timing differences** are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.
- 9.9 The discounting of **deferred tax assets** and **liabilities** is not required. However, if an entity does adopt a policy of discounting, all **deferred tax** balances that have been measured by reference to undiscounted cash flows and for which the impact of discounting is material shall be discounted. Where discounting is used, the unwinding of the discount shall be shown as a component of the tax charge and disclosed separately.
- 9.10 The **deferred tax** balance and its material components shall be disclosed.

- 9.11 The movement between the opening and closing net **deferred tax** balances, and the material components of this movement, shall be disclosed.
- 9.12 If **assets** have been revalued, or if their market values have been disclosed in a note, the amount of tax that would be payable or recoverable if the **assets** were sold at the values shown shall be disclosed.

#### **Tax on dividends**

- 9.13 Outgoing dividends and similar amounts payable shall be **recognised** at an amount that includes any **withholding tax** but excludes other taxes, such as attributable **tax credits**.
- 9.14 Incoming dividends and similar income receivable shall be **recognised** at an amount that includes any **withholding tax** but excludes other taxes, such as attributable **tax credits**. Any **withholding tax** suffered shall be shown as part of the tax charge.

#### **Value added tax (VAT)**

- 9.15 Turnover shown in the profit and loss account shall exclude either VAT on taxable outputs or VAT imputed under the flat rate VAT scheme. Irrecoverable VAT allocable to fixed **assets** and to other items disclosed separately in the financial statements shall be included in their cost where practicable and material.

### **10 Pensions**

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- 10.1 The cost of a **defined contribution scheme** is equal to the contributions payable to the scheme for the accounting period. The cost shall be **recognised** within operating profit in the profit and loss account.
- 10.2 PARTICULARS MUST BE GIVEN OF ANY PENSION COMMITMENTS INCLUDED UNDER ANY PROVISION SHOWN IN THE COMPANY'S BALANCE SHEET AND ANY SUCH COMMITMENTS FOR WHICH NO PROVISION HAS BEEN MADE. WHERE ANY SUCH COMMITMENT RELATES WHOLLY OR PARTLY TO PENSIONS PAYABLE TO PAST **DIRECTORS** OF THE COMPANY, SEPARATE PARTICULARS MUST BE GIVEN OF THAT COMMITMENT, SO FAR AS IT RELATES TO SUCH PENSIONS.
- 10.3 The following disclosures shall be made in respect of a **defined contribution scheme**:
- (a) the nature of the scheme (i.e. defined contribution);
  - (b) the cost for the period; and
  - (c) any outstanding or prepaid contributions at the balance sheet date.
- 10.4 An employer participating in a **defined benefit scheme** shall refer to Appendix II 'Accounting for retirement benefits: defined benefit schemes'.

### **11 Provisions, contingent liabilities and contingent assets**

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- 11.1 The requirements in paragraphs 11.2 to 11.8 do not apply to pensions, **deferred tax** and leases, which are covered by more specific requirements of the FRSSE.

#### **Provisions**

- 11.2 A **provision** shall be **recognised** when, and only when, it is probable (i.e. more likely than not) that a present **obligation** exists, as a result of a past event, and that it will require a transfer of economic benefits in settlement that can be estimated reliably. The amount **recognised** as a **provision** shall be the best estimate of the expenditure

required to settle the **obligation** at the balance sheet date. Where the effect of the time value of money is material, the amount of a **provision** shall be the present value of the expenditures expected to be required to settle the **obligation**. Where discounting is used, the unwinding of the discount shall be shown as other finance costs adjacent to interest.<sup>39</sup>

- 11.3 Where some or all of the expenditure required to settle a **provision** may be reimbursed by another party (e.g. through an insurance claim), the reimbursement shall be **recognised**, as a separate **asset**, only when it is virtually certain to be received if the entity settles the **obligation**. In the profit and loss account, the expense relating to the **provision** may be presented net of the recovery. Gains from the expected disposal of **assets** shall be excluded from the measurement of a provision.
- 11.4 **Provisions** shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.
- 11.5 A **provision** shall be used only for expenditures for which the **provision** was originally **recognised**.
- 11.6 FOR EACH CLASS OF **PROVISION** THE FOLLOWING INFORMATION MUST BE PROVIDED:
- (A) THE AMOUNT OF THE **PROVISION** AT THE BEGINNING AND THE END OF THE **FINANCIAL YEAR**;
  - (B) ANY AMOUNTS TRANSFERRED TO OR FROM THE **PROVISION** DURING THE YEAR;
  - (C) THE SOURCE AND APPLICATION OF THE AMOUNTS TRANSFERRED; AND
  - (D) PARTICULARS OF EACH MATERIAL **PROVISION** INCLUDED UNDER 'OTHER PROVISIONS' IN THE COMPANY'S BALANCE SHEET IN ANY CASE WHERE THE AMOUNT OF THAT **PROVISION** IS MATERIAL.

THE DISCLOSURES SET OUT ABOVE ARE NOT REQUIRED WHERE THE MOVEMENT CONSISTS OF THE APPLICATION OF A **PROVISION** FOR THE PURPOSE FOR WHICH IT WAS ESTABLISHED.

### **Contingent liabilities and contingent assets**

- 11.7 Contingent liabilities and **contingent assets** shall not be **recognised**.
- 11.8 The following shall be disclosed for **contingent liabilities**, except where their existence is remote, and for probable **contingent assets**:
- (a) a brief description of the nature of the contingent item; and
  - (b) where practicable, an estimate of its financial effect; and
  - (c) ITS LEGAL NATURE.
- 11.9 DETAILS MUST BE PROVIDED WHERE ANY VALUABLE SECURITY HAS BEEN PROVIDED BY THE COMPANY IN CONNECTION WITH A **CONTINGENT LIABILITY** AND IF SO, WHAT.
- 11.10 WHERE PRACTICABLE, THE AGGREGATE AMOUNT, OR ESTIMATED AMOUNT, OF CONTRACTS FOR CAPITAL EXPENDITURE NOT PROVIDED FOR MUST BE DISCLOSED. DETAILS OF ANY OTHER FINANCIAL COMMITMENTS NOT PROVIDED FOR WHICH ARE RELEVANT TO ASSESSING THE COMPANY'S STATE OF AFFAIRS MUST ALSO BE DISCLOSED.

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<sup>39</sup> There are a number of acceptable methods of discounting, and the appropriate discount rate depends on the method adopted. However, if cash flows are expressed in future prices and have been adjusted for risk, it will be appropriate to discount them at a risk-free rate such as a market rate on relevant government bonds. An illustrative example of a provision calculated using discounting is given in Appendix III.



- 11.11 PARTICULARS MUST BE GIVEN OF ANY CHARGE ON THE ASSETS OF THE COMPANY TO SECURE THE LIABILITIES OF ANY OTHER PERSON, INCLUDING WHERE PRACTICABLE, THE AMOUNT SECURED.

## 12 Financial instruments, share capital and share-based payments

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### General

- 12.1 A **financial instrument**, or its component parts, shall be classified as a **financial liability**, a **financial asset** or an **equity instrument** in accordance with the substance of the contractual arrangement rather than its legal form. Some **financial instruments** take the legal form of equity but are **liabilities** in substance and others may combine features associated with **equity instruments** and features associated with **financial liabilities**. For example a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a **financial liability**.
- 12.2 The **finance costs** of **borrowings** shall be allocated to periods over the **term** of the **borrowings** at a constant rate on the carrying amount. All **finance costs** shall be charged in the profit and loss account.
- 12.3 **Borrowings** shall be initially stated in the balance sheet at the **fair value** of consideration received. The carrying amount of **borrowings** shall be increased by the **finance cost** in respect of the reporting period and reduced by payments made in respect of the **borrowings** in that period.
- 12.4 Where an **arrangement fee** is such as to represent a significant additional cost of finance when compared with the interest payable over the life of the instrument, the treatment set out in paragraph 12.2 shall be followed. Where this is not the case it shall be charged in the profit and loss account immediately it is incurred.
- 12.5 THE AMOUNT OF ANY CONVERTIBLE DEBT ISSUED MUST BE SEPARATELY DISCLOSED FROM OTHER LIABILITIES.
- 12.6 Dividends relating to a **financial instrument** or a component that is a **financial liability** shall be recognised as expense in profit or loss. Distributions to holders of an **equity instrument** shall be debited by the entity directly to equity, net of any related income tax benefit. If an entity declares dividends after the balance sheet date, the dividends shall not be **recognised** as a **liability** at the balance sheet date.
- 12.7 THE NOTES TO THE ACCOUNTS MUST STATE:
- (A) THE AGGREGATE AMOUNT OF DIVIDENDS PAID IN THE FINANCIAL YEAR (OTHER THAN THOSE FOR WHICH A LIABILITY EXISTED AT THE IMMEDIATELY PRECEDING BALANCE SHEET DATE);
  - (B) THE AGGREGATE AMOUNT OF DIVIDENDS THAT THE COMPANY IS LIABLE TO PAY AT THE BALANCE SHEET DATE; AND
  - (C) THE AGGREGATE AMOUNT OF DIVIDENDS THAT ARE PROPOSED BEFORE THE DATE OF APPROVAL OF THE ACCOUNTS, AND NOT OTHERWISE DISCLOSED UNDER PARAGRAPH (A) OR (B) ABOVE.
- 12.8 IF ANY FIXED CUMULATIVE DIVIDENDS ON THE COMPANY'S SHARES ARE IN ARREARS, THE AMOUNT OF THE ARREARS AND THE PERIOD FOR WHICH EACH CLASS OF DIVIDENDS IS IN ARREARS MUST BE DISCLOSED.

## The company's share capital

- 12.9 THE FOLLOWING INFORMATION MUST BE DISCLOSED WITH RESPECT TO THE COMPANY'S SHARE CAPITAL:
- (A) WHERE SHARES OF MORE THAN ONE CLASS HAVE BEEN ALLOTTED, THE NUMBER AND AGGREGATE NOMINAL VALUE OF SHARES OF EACH CLASS ALLOTTED;
  - (B) FOR ANY PART OF THE ALLOTTED SHARE CAPITAL THAT CONSISTS OF REDEEMABLE SHARES:
    - (I) THE EARLIEST AND LATEST DATES ON WHICH THE COMPANY HAS THE POWER TO REDEEM THOSE SHARES;
    - (II) WHETHER THOSE SHARES MUST BE REDEEMED IN ANY EVENT OR ARE LIABLE TO BE REDEEMED AT THE OPTION OF THE COMPANY OR OF THE SHAREHOLDER; AND
    - (III) WHETHER ANY (AND, IF SO, WHAT) PREMIUM IS PAYABLE ON REDEMPTION.
- 12.10 IF THE COMPANY HAS ALLOTTED ANY SHARES DURING THE PERIOD, THE FOLLOWING INFORMATION MUST BE DISCLOSED:
- (a) THE CLASSES OF SHARES ALLOTTED; AND
  - (b) FOR EACH CLASS, THE NUMBER ALLOTTED, THEIR AGGREGATE NOMINAL VALUE, AND THE CONSIDERATION RECEIVED BY THE COMPANY FOR THE ALLOTMENT.
- 12.11 THE AMOUNT OF ALLOTTED SHARE CAPITAL AND THE AMOUNT OF CALLED UP SHARE CAPITAL WHICH HAS BEEN PAID UP MUST BE SEPARATELY DISCLOSED.
- 12.12 THE NUMBER, DESCRIPTION AND AMOUNT OF SHARES IN THE COMPANY HELD BY OR ON BEHALF OF ITS **SUBSIDIARY UNDERTAKINGS** MUST BE DISCLOSED UNLESS THE SUBSIDIARY UNDERTAKING IS CONCERNED AS A PERSONAL REPRESENTATIVE OR A TRUSTEE.

## Share-based payments

- 12.13 An entity which undertakes **share-based payment arrangements**, including transactions with **employees or others providing similar services** shall account for them as follows.

### Cash-settled share-based payment transactions

- (a) An entity shall recognise the goods or services received or acquired when it obtains the goods or as the services are received. If the goods or services received or acquired do not qualify for recognition as **assets**, they shall be **recognised** as expenses. The entity shall **recognise** a corresponding **liability**.
- (b) **The amount of the goods or services and the corresponding liability recognised** shall be the best estimate of the expenditure required to settle the **liability** at the balance sheet date. The **liability** shall be remeasured at each balance sheet date and at the date of settlement.
- (c) Information shall be disclosed in a note to describe the principal terms and conditions of cash settled share-based payment transactions that exist during the period, including their current and potential financial effect.

### Equity-settled share-based payment arrangements

- (d) Information shall be disclosed in a note to describe the principal terms and conditions of any equity settled share-based payment arrangements that exist during the period including, the number of shares and the number of employees

and others potentially involved, the grant date, any performance conditions and over what periods these apply and, where applicable, any option exercise prices.

- 12.14 Where the terms of the arrangement provide the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing **equity instruments**, the transaction, shall be accounted for as a cash-settled transaction in accordance with paragraph 12.13 (a) to (c) above. The liability shall be measured at the best estimate of the amount required to settle it at the balance sheet date if the counterparty were to opt for cash settlement. If the obligation is eventually settled by the issue of equity instruments, the liability previously recognised should be treated as the proceeds of issue of those instruments.
- 12.15 Where the entity and not the counterparty has the choice of settlement method, the arrangement shall be treated as either an equity-settled transaction in accordance with paragraph 12.13(d) or a cash-settled transaction in accordance with paragraph 12.13 (a) to (c), as appropriate in the entity's circumstances.

### 13 Foreign currency translation

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#### Transactions in foreign currencies

- 13.1 WHERE SUMS ORIGINALLY DENOMINATED IN FOREIGN CURRENCIES HAVE BEEN BROUGHT INTO ACCOUNT UNDER ANY ITEMS SHOWN IN THE BALANCE SHEET OR PROFIT AND LOSS ACCOUNT, THE BASIS ON WHICH THOSE SUMS HAVE BEEN TRANSLATED INTO **LOCAL CURRENCY** MUST BE DISCLOSED.
- 13.2 Subject to the provisions of paragraphs 13.4 and 13.6, each **asset, liability**, revenue or cost arising from a transaction denominated in a foreign currency shall be translated into the **local currency** at the **exchange rate** in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate shall be used. Where a trading transaction is covered by a related or matching **forward contract**, the rate of exchange specified in that contract may be used.
- 13.3 Subject to the special provisions of paragraph 13.6, which relate to the treatment of foreign equity investments financed by foreign currency **borrowings**, no subsequent **translations** shall normally be made once non-monetary **assets** have been translated and recorded.
- 13.4 At each balance sheet date, monetary **assets** and **liabilities** denominated in a foreign currency shall be translated by using the **closing rate** or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Where there are related or matching **forward contracts** in respect of trading transactions, the rates of exchange specified in those contracts may be used.
- 13.5 All exchange gains or losses on settled transactions and unsettled **monetary items** shall be reported as part of the profit or loss for the period from **ordinary activities**.
- 13.6 Where a company has used foreign currency **borrowings** to finance, or to provide a hedge against, its foreign equity investments and the conditions set out in this paragraph apply, the equity investments may be denominated in the appropriate foreign currencies and the carrying amounts translated at the end of each accounting period at **closing rates** for inclusion in the investing company's financial statements. Where investments are treated in this way, any exchange differences arising shall be taken to reserves and the exchange gains or losses on the foreign currency

**borrowings** shall then be offset, as a reserve movement, against these exchange differences. The conditions that must apply are as follows:

- (a) in any accounting period, exchange gains or losses arising on the **borrowings** may be offset only to the extent of exchange differences arising on the equity investments;
- (b) the foreign currency **borrowings**, whose exchange gains or losses are used in the offset process, shall not exceed, in the aggregate, the total amount of cash that the investments are expected to be able to generate, whether from profits or otherwise; and
- (c) the accounting treatment adopted shall be applied consistently from period to period.

### **Incorporating accounts of foreign entities**

- 13.7 When preparing accounts for a company and its **foreign entities** (which includes the incorporation of the results of associated companies or foreign branches into those of an investing company) the **closing rate/net investment** method of translating the **local currency** financial statements shall normally be used.
- 13.8 Exchange differences arising from the retranslation of the opening **net investment** in a **foreign entity** at the **closing rate** shall be recorded as a movement on reserves.
- 13.9 The profit and loss account of a **foreign entity** accounted for under the **closing rate/net investment** method shall be translated at the **closing rate** or at an average rate for the period. Where an average rate is used, the difference between the profit and loss account translated at an average rate and at the **closing rate** shall be recorded as a movement on reserves. The average rate used shall be calculated by the method considered most appropriate for the circumstances of the **foreign entity**.
- 13.10 In those circumstances where the trade of the **foreign entity** is more dependent on the economic environment of the investing company's currency than that of its own reporting currency, the transactions of the foreign operation shall be reported as though all of its transactions had been entered into by the investing company itself in its own currency, as stated in paragraphs 13.2-13.5.
- 13.11 The method used for translating the financial statements of each **foreign entity** shall be applied consistently from period to period unless its financial and other operational relationships with the investing company change.
- 13.12 Where foreign currency **borrowings** have been used to finance, or provide a hedge against, group equity investments in **foreign entities**, exchange gains or losses on the **borrowings**, which would otherwise have been taken to the profit and loss account, may be offset as reserve movements against exchange differences arising on the retranslation of the **net investments** provided that:
  - (a) the relationships between the investing company and the **foreign entities** concerned justify the use of the **closing rate** method for consolidation purposes;
  - (b) in any accounting period, the exchange gains and losses arising on foreign currency **borrowings** are offset only to the extent of the exchange differences arising on the **net investments in foreign entities**;
  - (c) the foreign currency **borrowings**, whose exchange gains or losses are used in the offset process, shall not exceed, in the aggregate, the total amount of cash that the **net investments** are expected to be able to generate, whether from profits or otherwise; and
  - (d) the accounting treatment is applied consistently from period to period.

Where the provisions of paragraph 13.6 have been applied in the investing company's financial statements to a foreign equity investment that is neither a subsidiary nor an associated company, the same offset procedure may be applied in the **consolidated financial statements**.

## **14 Post balance sheet events**

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- 14.1 An entity shall adjust the amounts **recognised** in its financial statements to reflect adjusting **events after the balance sheet date**.
- 14.2 An entity shall not adjust the amounts **recognised** in its financial statements to reflect non-adjusting **events after the balance sheet date**.
- 14.3 If non-adjusting **events after the balance sheet date** are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the balance sheet date:
- (a) the nature of the event; and
  - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
- 14.4 The date on which the financial statements are approved for issue and who gave that approval shall be disclosed in the financial statements.

## **15 Related party disclosures**

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- 15.1 Where the reporting entity:
- (a) purchases, sells or transfers goods and other **assets or liabilities**; or
  - (b) renders or receives services; or
  - (c) provides or receives finance or financial support; (irrespective of whether a price is charged) to, from or on behalf of a **related party**, then such material<sup>40</sup> transactions shall be disclosed, including:
    - (i) the names of the transacting **related parties**;
    - (ii) a description of the relationship between the parties;
    - (iii) a description of the transactions;
    - (iv) the amounts involved;
    - (v) any other elements of the transactions necessary for an understanding of the financial statements;
    - (vi) the amounts due to or from **related parties** at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
    - (vii) amounts written off in the period in respect of debts due to or from **related parties**.
- 15.2 Personal guarantees given by **directors** in respect of **borrowings** by the reporting entity shall be disclosed in the notes to the financial statements.

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<sup>40</sup> The materiality of a related party transaction shall be judged in terms of its significance to the reporting entity.

- 15.3 AMOUNTS INCLUDED IN THE PROFIT AND LOSS ACCOUNT UNDER 'INVESTMENT INCOME' AND 'OTHER INTEREST RECEIVABLE AND SIMILAR INCOME' THAT WERE RECEIVED, OR ARE RECEIVABLE FROM GROUP UNDERTAKINGS, MUST BE SHOWN SEPARATELY.
- 15.4 AMOUNTS INCLUDED IN THE PROFIT AND LOSS ACCOUNT UNDER 'INTEREST PAYABLE AND SIMILAR CHARGES' PAID, OR PAYABLE, TO GROUP UNDERTAKINGS, MUST BE SHOWN SEPARATELY.
- 15.5 COMMITMENTS WHICH ARE UNDERTAKEN ON BEHALF OF OR FOR THE BENEFIT OF (A) ANY PARENT UNDERTAKING OR FELLOW **SUBSIDIARY UNDERTAKING**, OR (B) ANY **SUBSIDIARY UNDERTAKING** OF THE COMPANY, MUST BE DISCLOSED SEPARATELY FROM THOSE COMMITMENTS DISCLOSED UNDER PARAGRAPHS 10.2 AND 11.8 TO 11.11, AND COMMITMENTS UNDERTAKEN UNDER (A) MUST BE DISCLOSED SEPARATELY FROM THOSE UNDERTAKEN UNDER (B).
- 15.6 Other transactions with **related parties** may be disclosed on an aggregated basis (aggregation of similar transactions by type of **related party**) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the reporting entity or is required by law.
- 15.7 Disclosure, as a **related party** transaction, is not required of:
- (a) pension contributions paid to a pension fund;
  - (b) emoluments in respect of services as an employee of the reporting entity;
  - (c) transactions with the parties listed below simply as a result of their role as:
    - (i) providers of finance in the course of their business in that regard;
    - (ii) utility companies;
    - (iii) **government** departments and their sponsored bodies; or
    - (iv) a customer, supplier, franchiser, distributor or general agent; or
  - (d) related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- 15.8 When the reporting entity is controlled by another party, there shall be disclosure of the **related party** relationship and the name of that party and, if different, that of the ultimate controlling party. If the controlling party or ultimate controlling party of the reporting entity is not known, that fact shall be disclosed. This information shall be disclosed irrespective of whether any transactions have taken place between the controlling parties and the reporting entity.
- 15.9 WHERE THE COMPANY IS A **SUBSIDIARY UNDERTAKING**, THE FOLLOWING INFORMATION MUST BE GIVEN WITH RESPECT TO THE COMPANY (IF ANY) REGARDED BY THE DIRECTORS AS BEING THE COMPANY'S ULTIMATE PARENT COMPANY:
- (a) THE NAME OF THAT COMPANY; AND
  - (b) ITS COUNTRY OF INCORPORATION IF OUTSIDE THE UNITED KINGDOM AND IF KNOWN TO THE DIRECTORS.

## Parent undertaking drawing up accounts for larger group<sup>41</sup>

- 15.10 WHERE THE COMPANY IS A **SUBSIDIARY UNDERTAKING**, THE FOLLOWING INFORMATION MUST BE GIVEN WITH RESPECT TO THE PARENT UNDERTAKING OF:
- (A) THE LARGEST GROUP OF WHICH IT IS A MEMBER FOR WHICH GROUP ACCOUNTS ARE DRAWN UP; AND
  - (B) THE SMALLEST SUCH GROUP OF UNDERTAKINGS:
    - (I) THE NAME OF THE PARENT UNDERTAKING;
    - (II) THE COUNTRY OF INCORPORATION, IF OUTSIDE THE UNITED KINGDOM;
    - (III) IF UNINCORPORATED, THE ADDRESS OF ITS PRINCIPAL PLACE OF BUSINESS; AND
    - (IV) IF COPIES OF EITHER OF THE GROUP ACCOUNTS REFERRED TO IN (A) OR (B) ABOVE ARE AVAILABLE TO THE PUBLIC, THE ADDRESS FROM WHICH THEY MAY BE OBTAINED.

## Directors' benefits: advances, credit and guarantees

- 15.11 INFORMATION ABOUT THE FOLLOWING DIRECTORS' BENEFITS MUST BE PROVIDED IN THE NOTES TO THE ACCOUNTS. FOR THE PURPOSES OF THIS SECTION, THE DIRECTORS OF A COMPANY ARE THE PERSONS WHO WERE A DIRECTOR AT ANY TIME IN THE FINANCIAL YEAR TO WHICH THE ACCOUNTS RELATE:
- (A) ADVANCES AND CREDITS GRANTED BY THE COMPANY TO ITS DIRECTORS; AND
  - (B) GUARANTEES OF ANY KIND ENTERED INTO BY THE COMPANY ON BEHALF OF ITS DIRECTORS.
- 15.12 THE INFORMATION REQUIRED FOR AN ADVANCE OR CREDIT IS AS FOLLOWS:
- (A) ITS AMOUNT;
  - (B) AN INDICATION OF THE INTEREST RATE;
  - (C) ITS MAIN CONDITIONS; AND
  - (D) ANY AMOUNTS REPAID.
- 15.13 THE INFORMATION REQUIRED FOR A GUARANTEE IS AS FOLLOWS:
- (A) ITS MAIN TERMS;
  - (B) THE AMOUNT OF THE MAXIMUM LIABILITY THAT MAY BE INCURRED BY THE COMPANY (OR ITS SUBSIDIARY); AND
  - (C) ANY AMOUNT PAID AND ANY LIABILITY INCURRED BY THE COMPANY (OR ITS SUBSIDIARY) FOR THE PURPOSE OF FULFILLING THE GUARANTEE (INCLUDING ANY LOSS INCURRED BY REASON OF ENFORCEMENT OF THE GUARANTEE).
- 15.14 THERE MUST ALSO BE DISCLOSED IN THE NOTES TO THE ACCOUNTS THE TOTALS OF AMOUNTS STATED UNDER PARAGRAPHS 15.12(A); 15.12(D); 15.13(B) AND 15.13(C) ABOVE.
- 15.15 THE REQUIREMENTS OF THIS SECTION APPLY IN RELATION TO EVERY ADVANCE, CREDIT OR GUARANTEE SUBSISTING AT ANY TIME IN THE FINANCIAL YEAR TO WHICH THE ACCOUNTS RELATE:

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<sup>41</sup> INFORMATION NEED NOT BE DISCLOSED WITH RESPECT TO AN UNDERTAKING WHICH IS ESTABLISHED UNDER THE LAW OF A COUNTRY OUTSIDE THE UNITED KINGDOM OR CARRIES ON BUSINESS OUTSIDE THE UNITED KINGDOM, IF IN THE OPINION OF THE DIRECTORS OF THE COMPANY THE DISCLOSURE WOULD BE SERIOUSLY PREJUDICIAL TO THE BUSINESS OF THAT UNDERTAKING, OR TO THE BUSINESS OF THE COMPANY OR ANY OF ITS SUBSIDIARY UNDERTAKINGS, AND THE SECRETARY OF STATE AGREES THAT THE INFORMATION NEED NOT BE DISCLOSED. WHERE ADVANTAGE IS TAKEN OF THIS EXEMPTION, THAT FACT SHALL BE STATED IN A NOTE TO THE COMPANY'S ANNUAL ACCOUNTS. This statutory exemption is not available in the Republic of Ireland.

- (A) WHENEVER IT WAS ENTERED INTO;
- (B) WHETHER OR NOT THE PERSON WAS A DIRECTOR OF THE COMPANY IN QUESTION AT THE TIME IT WAS ENTERED INTO; AND
- (C) IN THE CASE OF AN ADVANCE, CREDIT OR GUARANTEE INVOLVING A SUBSIDIARY UNDERTAKING OF THAT COMPANY, WHETHER OR NOT THAT UNDERTAKING WAS SUCH A SUBSIDIARY UNDERTAKING AT THE TIME IT WAS ENTERED INTO.

### **Subsidiary undertakings**

15.16 THE FOLLOWING INFORMATION MUST BE GIVEN WHERE AT THE END OF THE **FINANCIAL YEAR** THE COMPANY HAS **SUBSIDIARY UNDERTAKINGS**:

- (A) THE NAME OF EACH **SUBSIDIARY UNDERTAKING** MUST BE STATED; AND
- (B) WITH RESPECT TO EACH **SUBSIDIARY UNDERTAKING** IF IT IS INCORPORATED OUTSIDE THE UNITED KINGDOM, THE COUNTRY IN WHICH IT IS INCORPORATED; IF IT IS UNINCORPORATED, THE ADDRESS OF ITS PRINCIPAL PLACE OF BUSINESS.

### **Holdings in subsidiary undertakings<sup>42</sup>**

15.17 THERE MUST BE STATED IN RELATION TO SHARES OF EACH CLASS HELD BY THE COMPANY IN A **SUBSIDIARY UNDERTAKING** –

- (A) THE IDENTITY OF THE CLASS; AND
- (B) THE PROPORTION OF THE NOMINAL VALUE OF THE SHARES OF THAT CLASS REPRESENTED BY THOSE SHARES.

THE SHARES HELD BY THE COMPANY ITSELF MUST BE DISTINGUISHED FROM THOSE ATTRIBUTED TO THE COMPANY WHICH ARE HELD BY OR ON BEHALF OF A SUBSIDIARY UNDERTAKING.

### **Financial information about subsidiary undertakings**

15.18 THERE MUST BE DISCLOSED WITH RESPECT TO EACH **SUBSIDIARY UNDERTAKING** –

- (A) THE AGGREGATE AMOUNT OF ITS CAPITAL AND RESERVES AS AT THE END OF ITS RELEVANT **FINANCIAL YEAR**; AND
- (B) ITS PROFIT OR LOSS FOR THAT YEAR.

15.19 THAT INFORMATION NEED NOT BE GIVEN IF:

- (A) THE COMPANY IS EXEMPT BY VIRTUE OF SECTION 400 AND 401 OF THE COMPANIES ACT 2006 FROM THE REQUIREMENT TO PREPARE GROUP ACCOUNTS;
- (B) THE COMPANY'S INVESTMENT IN THE **SUBSIDIARY UNDERTAKING** IS INCLUDED IN THE COMPANY'S ACCOUNTS BY WAY OF THE EQUITY METHOD OF VALUATION;
- (C) THE **SUBSIDIARY UNDERTAKING** IS NOT REQUIRED BY ANY PROVISION OF THE COMPANIES ACT 2006 TO DELIVER A COPY OF ITS BALANCE SHEET FOR ITS RELEVANT **FINANCIAL YEAR** AND DOES NOT OTHERWISE PUBLISH THAT BALANCE SHEET IN THE UNITED KINGDOM OR ELSEWHERE, AND THE COMPANY'S HOLDING IS LESS THAN 50 PER CENT OF THE NOMINAL VALUE OF THE SHARES IN THE UNDERTAKING; OR
- (D) IT IS NOT MATERIAL.

15.20 THE "RELEVANT **FINANCIAL YEAR**" OF A **SUBSIDIARY UNDERTAKING** IS –

- (A) IF ITS **FINANCIAL YEAR** ENDS WITH THAT OF THE COMPANY, THAT YEAR; AND

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<sup>42</sup> Disclosure requirements for holdings in undertakings other than subsidiary undertakings are set out in paragraph 6.33.



- (B) IF NOT, ITS **FINANCIAL YEAR** ENDING LAST BEFORE THE END OF THE COMPANY'S **FINANCIAL YEAR**.

### **Membership of certain undertakings**

- 15.21 THE FOLLOWING INFORMATION MUST BE GIVEN WHERE, AT THE END OF THE **FINANCIAL YEAR**, THE COMPANY IS A MEMBER OF A **QUALIFYING UNDERTAKING**:
- (A) THE NAME AND LEGAL FORM OF THE UNDERTAKING; AND
- (B) THE ADDRESS OF THE UNDERTAKING'S REGISTERED OFFICE (WHETHER IN OR OUTSIDE THE UNITED KINGDOM) OR, IF IT DOES NOT HAVE SUCH AN OFFICE, ITS HEAD OFFICE (WHETHER IN OR OUTSIDE THE UNITED KINGDOM).
- 15.22 WHERE THE UNDERTAKING IS A QUALIFYING PARTNERSHIP THERE MUST ALSO BE STATED EITHER –
- (A) THAT A COPY OF THE LATEST ACCOUNTS OF THE UNDERTAKING HAS BEEN OR IS TO BE APPENDED TO THE COPY OF THE COMPANY'S ACCOUNTS SENT TO THE REGISTRAR UNDER SECTION 444 OF THE COMPANIES ACT 2006; OR
- (B) THE NAME OF AT LEAST ONE BODY CORPORATE (WHICH MAY BE THE COMPANY) IN WHOSE GROUP ACCOUNTS THE UNDERTAKING HAS BEEN OR IS TO BE DEALT WITH ON A CONSOLIDATED BASIS.
- 15.23 INFORMATION OTHERWISE REQUIRED BY PARAGRAPH 15.21 ABOVE NEED NOT BE GIVEN IF IT IS NOT MATERIAL.
- 15.24 INFORMATION OTHERWISE REQUIRED BY PARAGRAPH 15.22 (B) ABOVE NEED NOT BE GIVEN IF THE NOTES TO THE COMPANY'S ACCOUNTS DISCLOSE THAT THE COMPANY IS EXEMPT BECAUSE THE PARTNERSHIP IS DEALT WITH ON A CONSOLIDATED BASIS IN GROUP ACCOUNTS PREPARED BY (I) A MEMBER OF THE PARTNERSHIP ESTABLISHED UNDER LAW, OR (II) A PARENT UNDERTAKING OF SUCH A MEMBER.

## **16 Consolidated financial statements**

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- 16.1 IF, AT THE END OF A FINANCIAL YEAR, A COMPANY SUBJECT TO THE SMALL COMPANIES REGIME IS A PARENT COMPANY, THE DIRECTORS, AS WELL AS PREPARING INDIVIDUAL ACCOUNTS FOR THE YEAR, MAY PREPARE GROUP ACCOUNTS FOR THE YEAR.
- 16.2 Where the reporting entity is preparing **consolidated financial statements**, it should have regard to paragraph 5 of the Status of the FRSSE as a means of developing its policies and practices for the preparation of its consolidated financial statements.

### **Form and content of small group accounts<sup>43</sup>**

- 16.3 WHERE A SMALL COMPANY HAS PREPARED INDIVIDUAL ACCOUNTS IN ACCORDANCE WITH THE LEGAL REQUIREMENTS REFLECTED IN THE FRSSE AND IS PREPARING GROUP ACCOUNTS IN RESPECT OF THE SAME YEAR PARAGRAPHS 16.4 TO 16.8 APPLY.
- 16.4 IN PREPARING GROUP ACCOUNTS, A COMPANY SHALL HAVE REGARD TO THE LEGAL REQUIREMENTS REFLECTED IN THE FRSSE AND THE PROVISIONS OF SCHEDULE 6 OF THE SMALL COMPANIES AND GROUPS (ACCOUNTS AND DIRECTORS' REPORT) REGULATION (SI 2008/409). ANY REFERENCES IN THAT SCHEDULE TO COMPLIANCE WITH THE PROVISIONS OF 'SCHEDULE 6' SHALL BE CONSTRUED AS REFERENCES TO THE LEGAL REQUIREMENTS REFLECTED IN THE FRSSE.

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<sup>43</sup> There are no special provisions in Republic of Ireland company law that relate to the preparation of group accounts by small companies. See Appendix I.

- 16.5 IN PREPARING GROUP ACCOUNTS, DETAILS MUST BE SHOWN IN THE NOTES TO THE GROUP ACCOUNTS OF:
- (a) ADVANCES AND CREDITS GRANTED TO THE DIRECTORS OF THE PARENT COMPANY, BY THAT COMPANY, OR BY ANY OF ITS SUBSIDIARY UNDERTAKINGS; AND
  - (b) GUARANTEES OF ANY KIND ENTERED INTO ON BEHALF OF THE DIRECTORS OF THE PARENT COMPANY, BY THAT COMPANY OR BY ANY OF ITS SUBSIDIARY UNDERTAKINGS.
- 16.6 THE BALANCE SHEET FORMAT SET OUT IN PARAGRAPH 2.27 SHALL BE MODIFIED AS FOLLOWS. FOR ITEM B.III 'INVESTMENTS' SUBSTITUTE:
- “B.III INVESTMENTS
- 1. SHARES IN GROUP UNDERTAKINGS
  - 2. INTERESTS IN ASSOCIATED UNDERTAKINGS
  - 3. OTHER PARTICIPATING INTERESTS
  - 4. LOANS TO GROUP UNDERTAKINGS AND UNDERTAKINGS IN WHICH A PARTICIPATING INTEREST IS HELD
  - 5. OTHER INVESTMENTS OTHER THAN LOANS
  - 6. OTHERS.”
- 16.7 THE PROFIT AND LOSS ACCOUNT FORMAT SET OUT IN PARAGRAPH 2.29 SHALL BE MODIFIED BY REPLACING THE ITEM HEADED “INCOME FROM PARTICIPATING INTERESTS”<sup>44</sup> BY TWO ITEMS: “INCOME FROM INTERESTS IN ASSOCIATED UNDERTAKINGS” AND “INCOME FROM OTHER PARTICIPATING INTERESTS”.
- 16.8 WHERE GROUP ACCOUNTS ARE PREPARED THE BALANCE SHEET MUST CONTAIN IN A PROMINENT POSITION ON THE BALANCE SHEET, ABOVE THE SIGNATURE REQUIRED BY PARAGRAPH 2.30, THAT THEY ARE PREPARED IN ACCORDANCE WITH THE SPECIAL PROVISIONS IN PART 15 OF THE COMPANIES ACT 2006 RELATING TO SMALL COMPANIES.

## 17 Directors' remuneration

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- 17.1 THE OVERALL TOTAL OF THE FOLLOWING ITEMS MUST BE DISCLOSED IN RESPECT OF DIRECTORS' REMUNERATION:
- (A) THE OVERALL AMOUNT OF REMUNERATION PAID TO OR RECEIVABLE BY **DIRECTORS** IN RESPECT OF **QUALIFYING SERVICES**;
  - (B) THE OVERALL AMOUNT OF MONEY PAID TO OR RECEIVABLE BY **DIRECTORS** AND THE NET VALUE OF ASSETS (OTHER THAN MONEY, SHARE OPTIONS OR SHARES) RECEIVED OR RECEIVABLE BY DIRECTORS, UNDER LONG TERM INCENTIVE SCHEMES IN RESPECT OF QUALIFYING SERVICES; AND
  - (C) THE OVERALL VALUE OF ANY COMPANY CONTRIBUTIONS PAID, OR TREATED AS PAID, TO A **PENSION SCHEME** IN RESPECT OF **DIRECTORS' QUALIFYING SERVICES** AND BY REFERENCE TO WHICH THE RATE OR AMOUNT OF ANY MONEY PURCHASE BENEFITS THAT MAY BECOME PAYABLE WILL BE CALCULATED.

IN THE CASE OF **MONEY PURCHASE SCHEMES** AND **DEFINED BENEFIT SCHEMES**, DISCLOSE THE NUMBER OF **DIRECTORS** (IF ANY) TO WHOM **RETIREMENT BENEFITS** ARE ACCRUING IN RESPECT OF **QUALIFYING SERVICES**.

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<sup>44</sup> That is item 8 in format 1 and item 10 in format 2.

- 17.2 DISCLOSURE MUST BE PROVIDED OF THE AGGREGATE AMOUNTS OF ANY COMPENSATION TO **DIRECTORS** OR PAST **DIRECTORS** IN RESPECT OF LOSS OF OFFICE, INCLUDING BENEFITS OTHER THAN IN CASH, AND THE ESTIMATED MONEY VALUE OF SUCH BENEFITS AND THEIR NATURE.
- 17.3 DISCLOSURE MUST BE PROVIDED OF THE AGGREGATE AMOUNT OF ANY CONSIDERATION PAID TO, OR RECEIVABLE BY, THIRD PARTIES<sup>45</sup> FOR MAKING AVAILABLE THE SERVICES OF ANY PERSON:
- (A) AS A **DIRECTOR** OF THE COMPANY; OR
  - (B) WHILE **DIRECTOR** OF THE COMPANY, AS **DIRECTOR** OF ANY SUBSIDIARY UNDERTAKING, OR OTHERWISE IN CONNECTION WITH THE MANAGEMENT OF THE AFFAIRS OF THE COMPANY OR ANY OF ITS **SUBSIDIARY UNDERTAKINGS**.

THE REFERENCE TO CONSIDERATION INCLUDES BENEFITS OTHER THAN IN CASH AND THE ESTIMATED MONEY VALUE OF SUCH BENEFITS AND THEIR NATURE MUST BE DISCLOSED.

## 18 The directors' report

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### Introduction

- 18.1 THE DIRECTORS OF A COMPANY MUST PREPARE A DIRECTORS' REPORT FOR EACH INDIVIDUAL FINANCIAL YEAR OF THE COMPANY. THE FOLLOWING DISCLOSURES MUST BE PROVIDED IN THE DIRECTORS' REPORT:
- (A) THE PRINCIPAL ACTIVITIES OF THE COMPANY;
  - (B) DETAILS OF THE COMPANY'S **DIRECTORS**;
  - (C) POLITICAL DONATIONS AND EXPENDITURE;
  - (D) CHARITABLE DONATIONS;
  - (E) ACQUISITION OF OWN SHARES; AND
  - (F) EMPLOYMENT, ETC OF DISABLED PERSONS.
- 18.2 A DIRECTOR OF A COMPANY IS LIABLE TO COMPENSATE THE COMPANY FOR ANY UNTRUE OR MISLEADING STATEMENT IN THE DIRECTORS' REPORT OR ANY OMISSION FROM IT IF HE KNEW THE STATEMENT TO BE UNTRUE OR MISLEADING OR HE KNEW THE OMISSION TO BE DISHONEST CONCEALMENT OF A MATERIAL FACT.
- 18.3 WHERE THE COMPANY IS A PARENT AND CHOOSES TO PREPARE GROUP ACCOUNTS, THE DIRECTORS' REPORT MUST BE A GROUP REPORT RELATING TO THE UNDERTAKINGS INCLUDED IN THE CONSOLIDATION.

### The principal activities of the company

- 18.4 THE REPORT MUST STATE THE PRINCIPAL ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES DURING THE YEAR. These activities will be the various classes of business in which the company operates.

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<sup>45</sup> THIRD PARTIES ARE PERSONS OTHER THAN (1) THE DIRECTOR HIMSELF OR A PERSON CONNECTED WITH HIM OR BODY CORPORATE CONTROLLED BY HIM, AND (2) THE COMPANY OR ANY OF ITS SUBSIDIARY UNDERTAKINGS. Sections 252 and 253 of the Companies Act 2006 define what is meant by "Persons connected with a director" and "Member of the **director's family**". Amounts paid to or receivable by a person connected with a director, or a body corporate controlled by a director, shall be included instead within the disclosures set out in paragraph 17.1.

## **Details of the company's directors**

- 18.5 THE REPORT MUST STATE THE NAMES OF THE PERSONS WHO, AT ANY TIME DURING THE **FINANCIAL YEAR**, WERE **DIRECTORS** OF THE COMPANY.

## **Disclosure of qualifying third party indemnity provisions**

- 18.6 IF, WHEN A DIRECTORS' REPORT IS APPROVED, ANY QUALIFYING THIRD PARTY INDEMNITY PROVISION (WHETHER MADE BY THE COMPANY OR OTHERWISE) IS IN FORCE OR WAS IN FORCE DURING THE FINANCIAL YEAR FOR THE BENEFIT OF ONE OR MORE DIRECTORS OF THE COMPANY (OR OF AN ASSOCIATED COMPANY), THE REPORT MUST STATE THAT ANY SUCH PROVISION IS OR WAS IN FORCE.

## **Political donations and expenditure and charitable donations**

- 18.7 IF THE COMPANY OR THE COMPANY AND ITS SUBSIDIARIES, HAS IN THE **FINANCIAL YEAR** MADE ANY POLITICAL DONATION TO ANY POLITICAL PARTY OR OTHER POLITICAL ORGANISATION, OR MADE ANY POLITICAL DONATION TO ANY INDEPENDENT ELECTION CANDIDATE, OR INCURRED ANY POLITICAL EXPENDITURE, AND THE AMOUNT OF THE DONATION OR EXPENDITURE OR (AS THE CASE MAY BE) THE AGGREGATE AMOUNT OF ALL DONATIONS AND EXPENDITURE EXCEEDED £2,000, THEN THE DIRECTORS' REPORT MUST DISCLOSE THE FOLLOWING PARTICULARS:

- (a) FOR POLITICAL DONATIONS – THE NAME OF EACH POLITICAL PARTY, OTHER POLITICAL ORGANISATION OR INDEPENDENT ELECTION CANDIDATE TO WHOM SUCH A DONATION HAS BEEN MADE AND THE TOTAL AMOUNT GIVEN TO THAT PARTY, ORGANISATION OR CANDIDATE BY WAY OF SUCH DONATIONS IN THE FINANCIAL YEAR; AND
- (b) FOR POLITICAL EXPENDITURE – THE TOTAL AMOUNT INCURRED BY WAY OF SUCH EXPENDITURE IN THE FINANCIAL YEAR.

- 18.8 IF THE COMPANY, OR THE COMPANY AND ITS SUBSIDIARIES MADE ANY CONTRIBUTION TO A NON-EU POLITICAL PARTY, THE DIRECTORS' REPORT MUST CONTAIN A STATEMENT OF THE AMOUNT OF THE CONTRIBUTION OR, IF IT HAS MADE TWO OR MORE SUCH CONTRIBUTIONS IN THE YEAR, A STATEMENT OF THE TOTAL AMOUNT OF THE CONTRIBUTIONS.

- 18.9 IF THE COMPANY, OR THE COMPANY AND ITS SUBSIDIARIES, HAS IN THE FINANCIAL YEAR GIVEN MONEY FOR CHARITABLE PURPOSES AND THE MONEY GIVEN EXCEEDS £2,000 THE AMOUNT GIVEN FOR EACH OF THE PURPOSES FOR WHICH MONEY HAS BEEN GIVEN MUST BE DISCLOSED.

## **Acquisition of own shares<sup>46</sup>**

- 18.10 WHERE THE COMPANY ACQUIRES ITS OWN SHARES, EITHER BY PURCHASE OR ACQUISITION BY FORFEITURE, THE **DIRECTORS' REPORT** MUST STATE:

- (A) THE NUMBER AND NOMINAL VALUE OF SHARES PURCHASED, THE AGGREGATE CONSIDERATION PAID FOR THE SHARES AND THE REASONS FOR THE PURCHASE;
- (B) THE NUMBER AND NOMINAL VALUE OF SHARES ACQUIRED;
- (C) THE MAXIMUM NUMBER AND NOMINAL VALUE OF SHARES ACQUIRED OR CHARGED DURING THE YEAR; AND
- (D) THE NUMBER AND NOMINAL VALUE OF SUCH SHARES ACQUIRED WHICH WERE DISPOSED OF IN THE YEAR. THE AMOUNT OF MONEY RECEIVED SHALL BE DISCLOSED WHERE THE SHARES WERE DISPOSED OF FOR MONEY.

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<sup>46</sup> THESE DISCLOSURE REQUIREMENTS APPLY WHERE OWN SHARES ARE: (I) PURCHASED BY THE COMPANY OR ACQUIRED BY THE COMPANY BY FORFEITURE OR SURRENDER IN LIEU OF FORFEITURE; (II) ACQUIRED BY THE COMPANY OTHERWISE THAN FOR VALUABLE CONSIDERATION; (III) ACQUIRED BY A NOMINEE OF THE COMPANY WITHOUT FINANCIAL ASSISTANCE FROM THE COMPANY, OR BY ANY PERSON WITH FINANCIAL ASSISTANCE FROM THE COMPANY, AND, IN EITHER CASE, THE COMPANY HAS A BENEFICIAL INTEREST IN THE SHARES; OR (IV) MADE SUBJECT TO A LIEN OR CHARGE UNDER S150 OR S6(3) OF THE CONSEQUENTIAL PROVISIONS ACT 1985.

IN EACH OF THE ABOVE CASES, THE PERCENTAGE OF THE CALLED-UP SHARE CAPITAL WHICH THEY REPRESENT AND, IN EACH CASE WHERE SHARES HAVE BEEN CHARGED, THE AMOUNT OF THE CHARGE MUST BE STATED.

### **Employment, etc of disabled persons**

- 18.11 WHERE THE AVERAGE NUMBER OF EMPLOYEES EXCEEDS 250, THE DIRECTORS' REPORT MUST INCLUDE A STATEMENT DESCRIBING THE POLICY WHICH THE COMPANY HAS ADOPTED FOR:
- (A) GIVING FULL AND FAIR CONSIDERATION TO APPLICATIONS FOR EMPLOYMENT BY DISABLED PERSONS, HAVING REGARD TO THEIR PARTICULAR APTITUDES AND ABILITIES;
  - (B) CONTINUING EMPLOYMENT AND APPROPRIATE TRAINING FOR EMPLOYEES OF THE COMPANY WHO BECAME DISABLED DURING THE PERIOD WHEN THEY WERE EMPLOYED BY THE COMPANY; AND
  - (C) OTHERWISE FOR THE TRAINING, CAREER DEVELOPMENT AND PROMOTION OF DISABLED PERSONS EMPLOYED BY THE COMPANY.

### **Statement as to disclosure of information to auditors**

- 18.12 WHERE A SMALL COMPANY CHOOSES NOT TO TAKE ADVANTAGE OF THE EXEMPTION IN THE COMPANIES ACT 2006 RELATING TO THE AUDIT OF ACCOUNTS, THE DIRECTORS' REPORT MUST CONTAIN A STATEMENT THAT, SO FAR AS EACH OF THE DIRECTORS AT THE TIME THE REPORT IS APPROVED ARE AWARE:
- (A) THERE IS NO RELEVANT AUDIT INFORMATION OF WHICH THE COMPANY'S AUDITORS ARE UNAWARE; AND
  - (B) THE DIRECTORS HAVE TAKEN ALL STEPS THAT THEY OUGHT TO HAVE TAKEN TO MAKE THEMSELVES AWARE OF ANY RELEVANT AUDIT INFORMATION AND TO ESTABLISH THAT THE AUDITORS ARE AWARE OF THAT INFORMATION.

### **Approval and signing of the directors' report**

- 18.13 THE DIRECTORS' REPORT MUST BE APPROVED BY THE BOARD OF **DIRECTORS** AND SIGNED ON BEHALF OF THE BOARD BY A **DIRECTOR** OR THE SECRETARY OF THE COMPANY. EVERY COPY OF THE DIRECTORS' REPORT WHICH IS PUBLISHED BY OR ON BEHALF OF THE BOARD MUST STATE THE NAME OF THE PERSON WHO SIGNED IT ON BEHALF OF THE BOARD.
- 18.14 THE COPY OF THE DIRECTORS' REPORT WHICH IS DELIVERED TO THE REGISTRAR MUST STATE THE NAME OF THE PERSON WHO SIGNED IT ON BEHALF OF THE BOARD.
- 18.15 IF THE DIRECTORS' REPORT IS PREPARED IN ACCORDANCE WITH THE SMALL COMPANIES REGIME, IT MUST CONTAIN A STATEMENT TO THAT EFFECT IN A PROMINENT POSITION ABOVE THE SIGNATURE.
- 18.16 IF A DIRECTORS' REPORT IS APPROVED THAT DOES NOT COMPLY WITH THE REQUIREMENTS OF THE COMPANIES ACT 2006, THEN EVERY DIRECTOR OF THE COMPANY WHO KNEW THAT IT DID NOT COMPLY OR WAS RECKLESS AS TO WHETHER IT COMPLIED AND FAILED TO TAKE REASONABLE STEPS TO SECURE COMPLIANCE WITH THOSE REQUIREMENTS OR, AS THE CASE MAY BE, TO PREVENT THE REPORT FROM BEING APPROVED, COMMITS AN OFFENCE AND IS LIABLE TO A FINE.

## 19 Date from which effective and transitional arrangements

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- 19.1 The accounting practices set out in this Financial Reporting Standard for Smaller Entities (effective January 2015) shall be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 January 2015. Earlier application is permitted.

### Transitional arrangements – goodwill

- 19.2 All goodwill that was eliminated against reserves in accordance with an **accounting policy** permitted until 23 March 1999 may remain eliminated against reserves thereafter.<sup>47</sup> Alternatively, in its first accounting period beginning on or after 23 March 1999, an entity may reinstate by prior period adjustment all goodwill previously eliminated against reserves.

### Transitional arrangements – tangible fixed assets

- 19.3 Where, for its first accounting period ending on or after 23 March 2000, an entity does not adopt an **accounting policy** of revaluation, but the carrying amount of its **tangible fixed assets** reflects previous revaluations, it may:
- (a) retain the book amounts. In these circumstances the entity shall disclose the fact that the transitional provisions of the FRSSE are being followed and that the valuation has not been updated and give the date of the last revaluation; or
  - (b) restate the carrying amount of the **tangible fixed assets** to historical cost (less restated accumulated **depreciation**), as a change in **accounting policy**.
- 19.4 Where, for its first accounting period ending on or after 23 March 2000, an entity separates **tangible fixed assets** into different components with significantly different useful economic lives for **depreciation** purposes, the changes shall be dealt with as a prior period adjustment, as a change in **accounting policy**. Other revisions to the useful economic lives and **residual values** of **tangible fixed assets** are not the result of a change in **accounting policy** and shall be treated in accordance with paragraph 6.40 and not as **prior period adjustments**.

## 20 Withdrawal of the FRSSE (effective April 2008)

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- 20.1 The Financial Reporting Standard for Smaller Entities (effective January 2015) supersedes the FRSSE (effective April 2008).

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<sup>47</sup> The treatment of such amounts on disposal of a business is set out in paragraph 3.7.

## C Definitions

The following definitions shall apply in the FRSSE and in particular in the Statement of Standard Accounting Practice set out in sections 1-20 of Part B.

<p><b>accounting policies</b></p>	<p>Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:</p> <ul style="list-style-type: none"> <li>(i) recognising;</li> <li>(ii) selecting measurement bases for; and</li> <li>(iii) presenting</li> </ul> <p><b>assets, liabilities</b>, gains, losses and changes to shareholders' funds. Accounting policies do not include <b>estimation techniques</b>.</p> <p>Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an <b>asset</b> or a loss is to be <b>recognised</b>; the basis on which it is to be measured; and where in the profit and loss account or balance sheet it is to be presented.</p>
<p><b>actuarial gains and losses</b></p>	<p>Changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation or because the actuarial assumptions have changed.</p>
<p><b>applied research</b></p>	<p>Original or critical investigation undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective.</p>
<p><b>arrangement fees</b></p>	<p>The costs that are incurred directly in connection with the issue of a <b>capital instrument</b> (i.e. those costs that would not have been incurred if the specific instrument in question had not been issued).</p>
<p><b>assets</b></p>	<p>Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.</p>
<p><b>attributable profit (on long-term contracts)</b></p>	<p>That part of the total profit currently estimated to arise over the duration of the contract, after allowing for estimated remedial and maintenance costs and increases in costs so far as not recoverable under the terms of the contract, that fairly reflects the profit attributable to that part of the work performed at the accounting date. (There can be no attributable profit until the profitable outcome of the contract can be assessed with reasonable certainty.)</p>
<p><b>borrowings</b></p>	<p>Capital instruments that are classified as liabilities.</p>

<b>capital instruments</b>	All instruments that are issued (or arrangements entered into) by reporting entities as a means of raising finance, including shares, debentures, loans and debt instruments, options and warrants that give the holder the right to subscribe for or obtain capital instruments. In the case of <b>consolidated financial statements</b> the term includes capital instruments issued by subsidiaries except those that are held by another member of the group that is included in the consolidation.
<b>cash-settled share-based payment transaction</b>	A <b>share-based payment transaction</b> in which the entity acquires goods or services by incurring a <b>liability</b> to transfer cash or other <b>assets</b> to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other <b>equity instruments</b> of the entity.
<b>close members of the family of a person</b>	Close members of the family of a person are those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity and include: <ul style="list-style-type: none"> <li>(a) that person's children and spouse or domestic partner;</li> <li>(b) children of that person's spouse or domestic partner; and</li> <li>(c) dependents of that person or that person's spouse or domestic partner.</li> </ul>
<b>closing rate</b>	The closing rate is the <b>exchange rate</b> for spot transactions ruling at the balance sheet date and is the mean of the buying and selling rates at the close of business on the day for which the rate is to be ascertained.
<b>companies legislation</b>	<ul style="list-style-type: none"> <li>(a) In the United Kingdom, the Companies Act 2006; and</li> <li>(b) In the Republic of Ireland, the Companies Acts 1963-2003 and all other Regulations to be read as one with the Companies Acts.</li> </ul>
<b>consignment stock</b>	Consignment stock is stock held by one party (the 'dealer') but legally owned by another (the 'manufacturer'), on terms that give the dealer the right to sell the stock in the normal course of its business or, at its option, to return it unsold to the legal owner.
<b>consolidated financial statements</b>	The financial statements of a group prepared by consolidation. A group is a parent undertaking and its subsidiary undertakings. Consolidation is the process of adjusting and combining financial information from the individual financial statements of a parent undertaking and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the group as a single economic entity.
<b>contingent asset</b>	A possible <b>asset</b> that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.



<b>contingent liability</b>	<p>(a) A possible <b>obligation</b> that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or</p> <p>(b) an <b>obligation</b> at the balance sheet date that arises from past events but is not <b>recognised</b> as a <b>provision</b> because:</p> <p>(i) it is not probable that a transfer of economic benefits will be required to settle the <b>obligation</b>; or</p> <p>(ii) the amount of the <b>obligation</b> cannot be measured with sufficient <b>reliability</b>.</p>
<b>cost (of stock)</b>	<p>Cost is defined as being that expenditure which has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure should include, in addition to cost of purchase, such costs of conversion (including, for example, attributable overheads) as are appropriate to that location and condition. BORROWING COSTS THAT ARE DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF STOCK MAY BE INCLUDED AS PART OF THE COST.</p>
<b>current service cost</b>	<p>The increase in the present value of the <b>scheme liabilities</b> expected to arise from employee service in the current period.</p>
<b>current tax</b>	<p>The amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous periods.</p>
<b>curtailment</b>	<p>An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.</p>
<b>deferred tax</b>	<p>Estimated future tax consequences of transactions and events <b>recognised</b> in the financial statements of the current and previous periods.</p>
<b>defined benefit scheme</b>	<p>A pension or other <b>retirement benefit</b> scheme other than a <b>defined contribution scheme</b>. Normally, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.</p>
<b>defined contribution scheme</b>	<p>A pension or other <b>retirement benefit</b> scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay. The employer will have no legal or constructive <b>obligation</b> to pay further contributions if the scheme does not have sufficient <b>assets</b> to pay all employee benefits relating to employee service in the current and prior periods.</p>

<b>depreciation</b>	The measure of the cost or revalued amount of the economic benefits of a fixed <b>asset</b> that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the <b>useful economic life</b> of a fixed <b>asset</b> whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the <b>asset</b> .
<b>development</b>	Use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems before the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.
<b>directly attributable costs</b>	The costs that relate directly to securing the specific contract after the asset recognition criteria for <b>pre-contract costs</b> are met, if they can be separately identified and measured reliably.
<b>directors</b>	The directors of a company or other body, the partners, proprietors, committee of management or trustees of other forms of entity, or equivalent persons responsible for directing the entity's affairs and preparing its financial statements.
<b>DIRECTOR'S FAMILY</b>	<p>THE MEMBERS OF A DIRECTOR'S FAMILY ARE;</p> <p>(A) THE DIRECTOR'S SPOUSE OR CIVIL PARTNER;</p> <p>(B) ANY OTHER PERSON (WHETHER OF A DIFFERENT SEX OR THE SAME SEX) WITH WHOM THE DIRECTOR LIVES AS PARTNER IN AN ENDURING FAMILY RELATIONSHIP;</p> <p>(C) THE DIRECTOR'S CHILDREN OR STEP-CHILDREN;</p> <p>(D) ANY CHILDREN OR STEP-CHILDREN OF A PERSON WITHIN PARAGRAPH (B) (AND WHO ARE NOT CHILDREN OR STEP-CHILDREN OF THE DIRECTOR) WHO LIVE WITH THE DIRECTOR AND HAVE NOT ATTAINED THE AGE OF 18; AND</p> <p>(E) THE DIRECTOR'S PARENTS.</p> <p>IT EXCLUDES A PERSON WHO IS A DIRECTOR OF THE COMPANY.</p>
<b>employees and others providing similar services</b>	Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.
<b>equity instrument</b>	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

<b>equity instrument granted</b>	The right (conditional or unconditional) to an equity instrument of the entity conferred by the entity on another party, under a share-based payment arrangement.
<b>equity-settled share-based payment transaction</b>	A <b>share-based payment transaction</b> in which the entity receives goods or services as consideration for <b>equity instruments</b> of the entity (including shares or share options).
<b>estimation techniques</b>	<p>The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for <b>assets, liabilities</b>, gains, losses and changes to shareholders' funds.</p> <p>Estimation techniques implement the measurement aspects of <b>accounting policies</b>. An <b>accounting policy</b> will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.</p> <p>Estimation techniques include, for example:</p> <ul style="list-style-type: none"> <li>(a) methods of <b>depreciation</b>, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period; and</li> <li>(b) different methods used to estimate the proportion of trade debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.</li> </ul>
<b>events after the balance sheet date</b>	<p>Those events, both favourable and unfavourable, that occur between the balance sheet date and the date when financial statements are authorised for issue. Two types of events can be identified:</p> <p>Adjusting events</p> <ul style="list-style-type: none"> <li>(a) those that provide evidence of conditions that existed at the balance sheet date; and</li> </ul> <p>Non-adjusting events</p> <ul style="list-style-type: none"> <li>(b) those that are indicative of conditions that arose after the balance sheet date.</li> </ul>
<b>exceptional items</b>	Material items that derive from events or transactions that fall within the <b>ordinary activities</b> of the reporting entity and individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.
<b>exchange rate</b>	An exchange rate is a rate at which two currencies may be exchanged for each other at a particular point in time; different rates apply for spot and forward transactions.

<b>exchange transaction</b>	A transaction in which one party supplies goods or services to another party in exchange for a consideration, usually monetary.
<b>fair value</b>	Fair value is the amount at which an <b>asset</b> or <b>liability</b> could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale, less, where applicable, any grants receivable towards the purchase or use of an <b>asset</b> .
<b>finance charge (on a lease)</b>	The finance charge is the amount borne by the lessee over the <b>lease term</b> , representing the difference between the total of the <b>minimum lease payments</b> (including any residual amounts guaranteed by the lessee) and the amount at which the lessee records the leased asset at the <b>inception</b> of the lease.
<b>finance costs (of a capital instrument)</b>	The difference between the net proceeds of a <b>capital instrument</b> and the total amount of the payments (or other transfer of economic benefits) that the issuer may be required to make in respect of the instrument other than <b>arrangement fees</b> .
<b>finance lease</b>	A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the <b>inception</b> of a lease the present value of the <b>minimum lease payments</b> , including any initial payment, amounts to substantially all (normally 90 per cent or more) of the <b>fair value</b> of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. If the <b>fair value</b> of the asset is not determinable an estimate thereof should be used.
<b>financial asset</b>	Any asset that is: <ul style="list-style-type: none"> <li>(a) cash;</li> <li>(b) an equity instrument of another entity;</li> <li>(c) a contractual right: <ul style="list-style-type: none"> <li>(i) to receive cash or another financial asset from another entity; or</li> <li>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or</li> </ul> </li> <li>(d) a contract that will or may be settled in the entity's own equity instruments and is: <ul style="list-style-type: none"> <li>(i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or</li> <li>(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.</li> </ul> </li> </ul>

<b>financial instrument</b>	Any contract that gives rise to a <b>financial asset</b> of one entity and a <b>financial liability</b> or equity instrument of another entity.
<b>financial liability</b>	Any liability that is: <ul style="list-style-type: none"> <li>(a) a contractual obligation: <ul style="list-style-type: none"> <li>(i) to deliver cash or another financial asset to another entity; or</li> <li>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or</li> </ul> </li> <li>(b) a contract that will or may be settled in the entity's own equity instruments and is: <ul style="list-style-type: none"> <li>(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or</li> <li>(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.</li> </ul> </li> </ul>
<b>FINANCIAL YEAR</b>	A COMPANY'S <b>FINANCIAL YEAR</b> BEGINS WITH THE FIRST DAY OF ITS ACCOUNTING REFERENCE PERIOD AND ENDS WITH THE LAST DAY OF THAT PERIOD OR SUCH OTHER DATE, NOT MORE THAN SEVEN DAYS BEFORE OR AFTER THE END OF THAT PERIOD, AS THE <b>DIRECTORS</b> MAY DETERMINE.
<b>foreign entity</b>	A foreign entity is a subsidiary, associated company or branch whose operations are based in a country other than that of the investing company or whose <b>assets</b> and <b>liabilities</b> are denominated mainly in a foreign currency.
<b>foreseeable losses (on a long-term contract)</b>	Losses that are currently estimated to arise over the duration of the contract (after allowing for estimated remedial and maintenance costs and increases in costs so far as not recoverable under the terms of the contract). This estimate is required irrespective of: <ul style="list-style-type: none"> <li>(a) whether work has yet commenced on such contracts;</li> <li>(b) the proportion of work carried out at the accounting date; or</li> <li>(c) the amount of profits expected to arise on other contracts.</li> </ul>
<b>forward contract</b>	A forward contract is an agreement to exchange different currencies at a specified future date and at a specified rate. The difference between the specified rate and the spot rate ruling on the date the contract was entered into is the discount or premium on the forward contract.
<b>government</b>	Government includes government and inter-governmental agencies and similar bodies whether local, national or international.

<b>government grants</b>	Government grants are assistance by <b>government</b> in the form of cash or transfers of assets to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
<b>grant date for share-based payment arrangements</b>	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other <b>assets</b> , or <b>equity instruments</b> of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
<b>gross earnings (from a lease)</b>	Gross earnings comprise the lessor's gross finance income over the <b>lease term</b> , representing the difference between its gross investment in the lease and the cost of the leased <b>asset</b> less any grants receivable towards the purchase or use of the <b>asset</b> .
<b>hire purchase contract</b>	A hire purchase contract is a contract for the hire of an <b>asset</b> that contains a <b>provision</b> giving the hirer an option to acquire legal title to the <b>asset</b> upon the fulfilment of certain conditions stated in the contract.
<b>identifiable assets and liabilities</b>	Identifiable assets and liabilities are the <b>assets</b> and <b>liabilities</b> of an entity that are capable of being disposed of or settled separately, without disposing of a business of the entity.
<b>inception (of a lease)</b>	The inception of a lease is the earlier of the time the asset is brought into use and the date from which rentals first accrue.
<b>intangible assets</b>	Intangible assets are non-financial fixed <b>assets</b> that do not have physical substance but are <b>identifiable</b> and are controlled by the entity through custody or legal rights.
<b>interest cost</b>	The expected increase during the period in the present value of the <b>scheme liabilities</b> because the benefits are one period closer to <b>settlement</b> .
<b>investment property</b>	An investment property is an interest in land and/or buildings: <ul style="list-style-type: none"> <li>(a) in respect of which construction work and development have been completed; and</li> <li>(b) which is held for its investment potential, any rental income being negotiated at arm's length, but excluding: <ul style="list-style-type: none"> <li>(i) a property that is owned and occupied by a company for its own purposes; and</li> <li>(ii) a property let to and occupied by another group company.</li> </ul> </li> </ul>
<b>key management personnel</b>	Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

<b>lease term</b>	The lease term is the period for which the lessee has contracted to lease the <b>asset</b> and any further terms for which the lessee has the option to continue to lease the <b>asset</b> with or without further payment, which option it is reasonably certain at the <b>inception</b> of the lease that the lessee will exercise.
<b>liabilities</b>	An entity's <b>obligations</b> to transfer economic benefits as a result of past transactions or events.
<b>local currency</b>	An entity's local currency is the currency of the primary economic environment in which it operates and generates net cash flows.
<b>long-term contract</b>	A contract entered into for the design, manufacture or construction of a single substantial <b>asset</b> or the provision of a service (or of a combination of <b>assets</b> or services that together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. A contract that is required to be accounted for as long-term by the FRSSE will usually extend for a period exceeding one year. However, a duration exceeding one year is not an essential feature of a long-term contract. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period that not to record turnover and <b>attributable profit</b> would lead to distortion of the period's turnover and results such that the financial statements would not give a true and fair view, provided that the policy is applied consistently within the reporting entity and from year to year.
<b>minimum lease payments</b>	The minimum lease payments are the minimum payments over the remaining part of the <b>lease term</b> (excluding charges for services and taxes to be paid by the lessor) and:  (a) in the case of the lessee any residual amounts guaranteed by it or by a party related to it; or  (b) in the case of the lessor any residual amounts guaranteed by the lessee or by an independent third party.
<b>monetary items</b>	Monetary items are money held and amounts to be received or paid in money and should be categorised as either short-term or long-term. Short-term monetary items are those that fall due within one year of the balance sheet date.
<b>MONEY PURCHASE SCHEME</b>	A <b>DEFINED CONTRIBUTION SCHEME</b> UNDER WHICH ALL OF THE BENEFITS THAT MAY BECOME PAYABLE ARE CALCULATED BY REFERENCE TO THE PAYMENTS MADE OR TREATED AS MADE BY THE SCHEME MEMBER AND WHICH ARE NOT AVERAGE SALARY BENEFITS.
<b>net investment (in a foreign entity)</b>	The net investment that a company has in a <b>foreign entity</b> is its effective equity stake and comprises its proportion of such <b>foreign entity's</b> net assets; in appropriate circumstances, intragroup loans and other deferred balances may be regarded as part of the effective equity stake.

<b>net investment (in a lease)</b>	The net investment in a lease at a point in time comprises: (a) the gross investment in a lease (i.e. the total of the <b>minimum lease payments</b> and that portion of the <b>residual value</b> of the <b>leased asset</b> , the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor); less (b) <b>gross earnings</b> allocated to future periods.
<b>net realisable value (of fixed assets)</b>	Net realisable value of a fixed asset is the amount at which the asset could be disposed of, less any direct selling costs.
<b>net realisable value (of stocks and long-term contracts)</b>	The actual or estimated selling price (net of trade but before settlement discounts) less: (a) all further costs to completion; and (b) all costs to be incurred in marketing, selling and distributing.
<b>obligation</b>	An obligation may be either a legal obligation (derived, for example, from a contract or legislation) or a constructive obligation, where the entity has indicated to other parties that it will accept certain responsibilities and has created valid expectations in those other parties that it will discharge those responsibilities.
<b>operating lease</b>	An operating lease is a lease other than a <b>finance lease</b> .
<b>ordinary activities</b>	Any activities that are undertaken by a reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, incidental to, or arising from, these activities. Ordinary activities include the effects on the reporting entity of any event in the various environments in which it operates, including the political, regulatory, economic and geographical environments, irrespective of the frequency or unusual nature of the events.
<b>past service cost</b>	The increase in the present value of the <b>scheme liabilities</b> related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, <b>retirement benefits</b> .
<b>pension schemes</b>	A pension scheme is an arrangement (other than accident insurance) to provide pension and/or other benefits for members on leaving service or retiring and, after a member's death, for his/her dependants.
<b>performance</b>	The fulfilment of the seller's contractual <b>obligations</b> to a customer through the supply of goods and services.
<b>permanent differences</b>	Differences between an entity's taxable profits and its results as stated in the financial statements that arise because certain types of income and expenditure are non-taxable or disallowable, or because certain tax charges or allowances have no corresponding amount in the financial statements.
<b>pre-contract costs</b>	The costs of tendering for and securing contracts to supply products or services.



<b>prior period adjustments</b>	Material adjustments applicable to prior periods arising from changes in <b>accounting policies</b> or from the correction of fundamental errors. They do not include normal recurring adjustments or corrections of accounting estimates made in prior periods.
<b>projected unit method</b>	<p>An accrued benefits valuation method in which the <b>scheme liabilities</b> make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the <b>scheme liabilities</b> at the valuation date relate to:</p> <p>(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and</p> <p>(b) the accrued benefits for members in service on the valuation date.</p> <p>The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</p>
<b>provision</b>	A <b>liability</b> of uncertain timing or amount.
<b>public benefit entities</b>	An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.
<b>purchased goodwill</b>	Purchased goodwill is goodwill that is established as a result of the purchase of a business accounted for as an acquisition. It represents the difference between the cost of the acquired business and the aggregate of the <b>fair values</b> recorded for the <b>identifiable assets and liabilities</b> acquired. Positive goodwill arises when the acquisition cost exceeds the aggregate <b>fair values</b> of the <b>identifiable assets and liabilities</b> . Negative goodwill arises when the aggregate <b>fair values</b> of the <b>identifiable assets and liabilities</b> of the entity exceed the acquisition cost.
<b>pure (or basic) research</b>	Experimental or theoretical work undertaken primarily to acquire new scientific or technological knowledge for its own sake rather than directed towards any specific aim or application.
<b>QUALIFYING SERVICES</b>	SERVICES AS A DIRECTOR OF THE COMPANY OR SERVICES WHILE DIRECTOR OF THE COMPANY AND AS DIRECTOR OF ANY OF ITS SUBSIDIARY UNDERTAKINGS OR OTHERWISE IN CONNECTION WITH THE MANAGEMENT OF THE AFFAIRS OF THE COMPANY OR ANY OF ITS SUBSIDIARIES.

<b>QUALIFYING THIRD PARTY INDEMNITY PROVISION</b>	<p>A PROVISION BY WHICH A COMPANY DIRECTLY OR INDIRECTLY PROVIDES AN INDEMNITY FOR A DIRECTOR OF THE COMPANY OR AN ASSOCIATED COMPANY WHICH SATISFIES THE FOLLOWING THREE CONDITIONS:</p> <p>(A) THE PROVISION DOES NOT PROVIDE ANY INDEMNITY AGAINST ANY LIABILITY INCURRED BY THE DIRECTOR TO THE COMPANY OR ANY ASSOCIATED COMPANY;</p> <p>(B) THE PROVISION DOES NOT PROVIDE ANY INDEMNITY AGAINST ANY LIABILITY INCURRED BY THE DIRECTOR TO PAY A FINE IMPOSED BY CRIMINAL PROCEEDINGS OR PAY A PENALTY TO A REGULATORY AUTHORITY IN RESPECT OF NON-COMPLIANCE;</p> <p>(C) THE PROVISION DOES NOT PROVIDE ANY INDEMNITY AGAINST ANY LIABILITY INCURRED BY THE DIRECTOR (I) IN DEFENDING ANY CRIMINAL PROCEEDINGS IN WHICH HE IS CONVICTED OR (II) IN DEFENDING ANY CIVIL PROCEEDINGS BROUGHT BY THE COMPANY OR AN ASSOCIATED COMPANY IN WHICH JUDGEMENT IS GIVEN AGAINST HIM, OR (III) IN WHICH THE COURT REFUSES TO GRANT RELIEF IN CONNECTION WITH ANY APPLICATION UNDER THE FOLLOWING PROVISIONS: ACQUISITION OF SHARES BY INNOCENT NOMINEE, OR GENERAL POWER TO GRANT RELIEF IN CASE OF HONEST AND REASONABLE CONDUCT.</p>
<b>QUALIFYING UNDERTAKING</b>	<p>A QUALIFYING PARTNERSHIP OR AN UNLIMITED COMPANY EACH OF WHOSE MEMBERS IS (I) A LIMITED COMPANY, OR (II) ANOTHER UNLIMITED COMPANY EACH OF WHOSE MEMBERS IS A LIMITED COMPANY, OR (III) A SCOTTISH PARTNERSHIP EACH OF WHOSE MEMBERS IS A LIMITED COMPANY.</p> <p>THIS INCLUDES ANY COMPARABLE UNDERTAKING INCORPORATED IN OR FORMED UNDER THE LAW OF ANY COUNTRY OR TERRITORY OUTSIDE UNITED KINGDOM.</p>
<b>recognised</b>	<p>Recognition is the process of incorporating an item into the primary financial statements under the appropriate heading. It involves depiction of the item in words and by a monetary amount and inclusion of that amount in the statement totals.</p>
<b>recoverable amount</b>	<p>Recoverable amount of an <b>asset</b> is the higher of the amounts that can be obtained from selling the <b>asset</b> (i.e. <b>net realisable value</b>) or continuing to use the <b>asset</b> in the business (i.e. value in use). Value in use is calculated as the present value of the future cash flows<sup>48</sup> obtainable as a result of the <b>asset's</b> continued use (including those resulting from its ultimate disposal), or a reasonable estimate thereof.</p>
<b>regular (pension) cost</b>	<p>The consistent ongoing cost <b>recognised</b> under the actuarial method used.</p>

<sup>48</sup> This calculation may not be relevant for fixed assets held by charities and other not-for-profit entities, where they are not held for the purpose of generating cash flows.

<p><b>related parties</b></p>	<p>A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).</p> <p>(a) A person or a close member of that person’s family is related to a reporting entity if that person:</p> <ul style="list-style-type: none"> <li>(i) has control or joint control over the reporting entity;</li> <li>(ii) has significant influence over the reporting entity; or</li> </ul> <p>(b) is a member of the <b>key management personnel</b> of the reporting entity or of a parent of the reporting entity. An entity is related to a reporting entity if any of the following conditions applies:</p> <ul style="list-style-type: none"> <li>(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).</li> <li>(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).</li> <li>(iii) Both entities are joint ventures of the same third party.</li> <li>(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.</li> <li>(v) The entity is a retirement benefit scheme for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a scheme, the sponsoring employers are also related to the reporting entity.</li> <li>(vi) The entity is controlled or jointly controlled by a person identified in (a).</li> <li>(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).</li> </ul>
<p><b>reliability</b></p>	<p>Financial information is reliable if:</p> <ul style="list-style-type: none"> <li>(a) it can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and therefore reflects the substance of the transactions and other events that have taken place;</li> <li>(b) it is free from deliberate or systematic bias (i.e. it is neutral);</li> <li>(c) it is free from material error;</li> <li>(d) it is complete within the bounds of materiality; and</li> <li>(e) under conditions of uncertainty, it has been prudently prepared (i.e. a degree of caution has been applied in exercising judgement and making the necessary estimates).</li> </ul>

<b>research and development expenditure</b>	Research and development expenditure means expenditure falling into one or more of the broad categories of <b>pure (or basic) research, applied research</b> and <b>development</b> (except to the extent that it relates to locating or exploiting oil, gas or mineral deposits or is reimbursable by third parties either directly or under the terms of a firm contract to develop and manufacture at an agreed price calculated to reimburse both elements of expenditure).
<b>residual value</b>	Residual value is the realisable value of an <b>asset</b> at the end of its <b>useful economic life</b> , based on prices prevailing at the date of acquisition or revaluation, where this has taken place. Residual values do not take account of future price changes Realisation costs should be deducted in arriving at the residual value.
<b>retirement benefits</b>	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.
<b>right to consideration</b>	A seller's right to the amount received or receivable in exchange for its <b>performance</b> . This right does not necessarily correspond to amounts falling due in accordance with a schedule of stage payments which may be specified in a contractual arrangement. Whilst stage payments will often be timed to coincide with <b>performance</b> , they may not correspond exactly. Stage payments reflect only the agreed timing of payment, whereas a right to consideration arises through the seller's <b>performance</b> .
<b>scheme liabilities</b>	The <b>liabilities</b> of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the <b>projected unit method</b> reflect the benefits that the employer is committed to provide for service up to the valuation date.
<b>settlement</b>	An irrevocable action that relieves the employer (or the <b>defined benefit scheme</b> ) of the primary responsibility for a pension <b>obligation</b> and eliminates significant risks relating to the <b>obligation</b> and the <b>assets</b> used to effect the settlement.
<b>share-based payment transaction</b>	A transaction in which the entity receives goods or services as consideration for <b>equity instruments</b> of the entity (including shares or share options), or acquires goods or services by incurring <b>liabilities</b> to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other <b>equity instruments</b> of the entity.
<b>SOCIAL SECURITY COSTS</b>	ANY CONTRIBUTIONS BY THE ENTITY TO ANY STATE SOCIAL SECURITY OR PENSION SCHEME, FUND OR ARRANGEMENT.

<b>start-up costs</b>	Costs arising from those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, initiating a new process in an existing facility, starting some new operation and similar items. They include costs of relocating or reorganising part or all of an entity, costs related to organising a new entity, and expenses and losses incurred both before and after opening.
<b>SUBSIDIARY UNDERTAKINGS<sup>49</sup></b>	<p>AN UNDERTAKING IS A SUBSIDIARY OF A PARENT UNDERTAKING WHERE THE PARENT:</p> <p>(A) HOLDS A MAJORITY OF THE VOTING RIGHTS IN THE UNDERTAKING; OR</p> <p>(B) IS A MEMBER OF THE UNDERTAKING AND HAS THE RIGHT TO APPOINT OR REMOVE A MAJORITY OF ITS BOARD OF DIRECTORS; OR</p> <p>(C) HAS THE RIGHT TO EXERCISE A DOMINANT INFLUENCE OVER THE UNDERTAKING BY VIRTUE OF PROVISIONS CONTAINED IN ITS MEMORANDUM OR ARTICLES OR BY VIRTUE OF A CONTROL CONTRACT; OR</p> <p>(D) IS A MEMBER OF THE UNDERTAKING AND CONTROLS ALONE, PURSUANT TO AN AGREEMENT WITH OTHER SHAREHOLDERS OR MEMBERS, A MAJORITY OF THE VOTING RIGHTS IN THE UNDERTAKING; OR</p> <p>(E) HAS THE POWER TO EXERCISE, OR ACTUALLY EXERCISES, DOMINANT INFLUENCE OR CONTROL OVER THE UNDERTAKING; OR</p> <p>(F) THE PARENT AND THE SUBSIDIARY UNDERTAKING ARE MANAGED ON A UNIFIED BASIS.</p>
<b>tangible fixed assets</b>	<b>Assets</b> that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities.
<b>tax credit</b>	The tax credit given under UK legislation to the recipient of a dividend from a UK company.
<b>term (of a capital instrument)</b>	The period from the date of issue of the <b>capital instrument</b> to the date at which it will expire, be redeemed, or be cancelled. If either party has the option to require the instrument to be redeemed or cancelled and, under the terms of the instrument, it is uncertain whether such an option will be exercised, the term should be taken to end on the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option. If either party has the right to extend the period of an instrument, the term should not include the period of the extension if there is a genuine commercial possibility that the period will not be extended.

<sup>49</sup> In case of doubt, reference should be made to the full definition in section 1162 of the Companies Act 2006.

<b>timing differences</b>	Differences between taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are <b>recognised</b> in financial statements. For example, a timing difference would arise when tax allowances for the cost of a fixed asset are accelerated or decelerated, i.e. received before or after the <b>depreciation</b> of the fixed asset is <b>recognised</b> in the profit and loss account.
<b>total recognised gains and losses</b>	The total of all gains and losses of the reporting entity that are <b>recognised</b> in a period and are attributable to the shareholders.
<b>translation</b>	Translation is the process whereby financial data denominated in one currency are expressed in terms of another currency. It includes both the expression of individual transactions in terms of another currency and the expression of a complete set of financial statements prepared in one currency in terms of another currency.
<b>useful economic life</b>	The useful economic life of a tangible fixed asset is the period over which the entity expects to derive economic benefit from that asset.
<b>withholding tax</b>	Tax on dividends or other income that is deducted by the payer of the income and paid to the tax authorities wholly on behalf of the recipient.

## D Voluntary Disclosures

The disclosures below are not mandatory and do not form part of the Statement of Standard Accounting Practice. The Board, however, encourages reporting entities voluntarily to include the following disclosures in their financial statements.

### **Cash flow information**<sup>50</sup>

- 1 Reporting entities are encouraged, but not required, to provide a cash flow statement using the indirect method as explained below.<sup>51</sup>
- 2 The indirect method starts with operating profit (which is normally profit before income from shares in group undertakings) and adjusts it for non-cash charges and credits to reconcile it with cash generated from operations. Other sources and applications of cash are shown to arrive at total cash generated (or utilised) in the period.
- 3 Cash is taken as 'cash at bank and in hand' less overdrafts repayable on demand, which should be reconciled to the balance sheet.
- 4 Cash flows are shown net of any attributable value added tax or other sales tax unless the tax is irrecoverable by the reporting entity.
- 5 It is recommended that material transactions not resulting in movements of cash of the reporting entity are disclosed by way of note, if disclosure is necessary for an understanding of the underlying transactions.

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<sup>50</sup> The Board's reasoning for including a voluntary recommendation for cash flow information is set out in Appendix IV.

<sup>51</sup> An illustrative example of a cash flow statement using the indirect method is given in Appendix III.

## **E Approval by the FRC**

FRS 100 *Application of Financial Reporting Requirements* was approved for issue by the Board of the Financial Reporting Council on 1 November 2012, following its consideration of the Accounting Council's advice for that standard. The consequential amendments to the FRSSE were set out in paragraphs 16(a) to (x) of FRS 100.



# Appendix I

## Note on Legal Requirements for Companies

### The United Kingdom

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#### Companies Act 2006, sections 382 to 384

1 The definition of a small company is contained in sections 382 and 383 of the Companies Act 2006. The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

- (a) Turnover of £6,500,000
- (b) Balance sheet total of £3,260,000
- (c) Average number of employees is 50

For any company, other than a newly incorporated company, to qualify as small, the qualifying conditions must be met for two consecutive years. A company will cease to qualify as small if it fails to meet the qualifying conditions for two consecutive years. However, if a company which qualified as small in one period no longer meets the criteria for small in the next period, the company may continue to claim the exemption available in the next period. If that company then reverts back to being small by meeting the criteria, the exemption will continue uninterrupted.

2 Certain companies are excluded by section 384 from the 'small company' criteria for reasons of public interest. These are any entity that is, or is in a group that includes:

- (a) a public company;
- (b) a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company or a company that carries on insurance market activity;
- (c) a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; or
- (d) a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity.

3 A parent company shall not be treated as qualifying as a small company in relation to a financial year unless the group headed by it qualifies as a small group.

4 The definition of a small group is contained in section 383. The qualifying conditions are met by a group in a year in which it does not exceed two or more of the following criteria:

- 1) Aggregate turnover of £6,500,000 net (or £7,800,000 gross).
- 2) Aggregate balance sheet total of £3,260,000 net (or £3,900,000 gross).
- 3) Aggregate number of employees is 50.

'Net' means after the set-offs and other adjustments required by Schedule 6 of the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 in the case of group accounts, and 'gross' means without those set-offs and adjustments. A company may satisfy the relevant requirements on the basis of either the net or the gross figure<sup>52</sup>.

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<sup>52</sup> Reference should also be made to Schedule 6 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 because it is possible that after the set-offs and other adjustments required by that Schedule, a group which started off large or medium-sized could become small.

## Republic of Ireland

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- 5 The following table shows the references in companies legislation in the Republic of Ireland that correspond to the references in paragraphs 1-4 above.

<b>United Kingdom</b>	<b>Republic of Ireland</b>
Sections 382 and 383	Companies (Amendment) Act 1986, sections 2, 8 and 9
Sections 384	No equivalent
The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008	No equivalent

The qualifying conditions for the definition of a small company may be met by a company in a year in which it does not exceed two or more of the following criteria:

- 1) Turnover of €3.81 million.
- 2) Balance sheet total of €1.9 million.
- 3) Average number of employees is 50.

The FRSSE can be applied to those companies meeting the criteria as set out in the Republic of Ireland Companies Acts that allow them to be treated as “small” for the purposes of filing information with the Companies Registration Office. Small groups are not defined in Republic of Ireland legislation. However, in the Republic of Ireland, for the purposes of the FRSSE, small groups should meet, on a consolidated basis, the same legal conditions as are required for small companies. If a group does not qualify as small, then the parent undertaking of that group, even if it qualifies as a small company under Republic of Ireland legislation, is not entitled to adopt the FRSSE.

## Derivation tables for legal requirements referred to in the FRSSE

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- 6 Derivation tables for all the legal requirements referred to in the FRSSE are available from the FRC website at [frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/FRSSE.aspx](http://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/FRSSE.aspx) in the derivation tables which indicates the source of company law in the United Kingdom and the Republic of Ireland.
- 7 Republic of Ireland users of the FRSSE should note that the requirements of company law as shown in SMALL CAPITALS in the text of the FRSSE relate to UK company law as applicable to small companies. The corresponding reference to Republic of Ireland companies legislation is shown in Table 1 of the derivation tables. However, Republic of Ireland users should note that the detail of the Republic of Ireland legal requirements in many cases differs from UK company law.
- 8 In addition, there are a number of Republic of Ireland legal requirements that are not reflected in the FRSSE. There is no equivalent to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 providing certain exemptions for small companies when preparing annual accounts for shareholders. Exemptions from company law requirements for small companies in the Republic of Ireland are limited and relate primarily to information that must be filed with the Companies Registration Office. These additional requirements are referenced in Table 2 of the derivation tables.
- 9 There are no special provisions in Republic of Ireland company law that relate to the preparation of group accounts by small entities. The general requirement for the preparation of group accounts is contained in section 150 of the Companies Act 1963.

Regulation 7 of the EC (Companies: Group Accounts) Regulations 1992, SI 201/1992, contains an exemption from the requirement to prepare group accounts for certain undertakings to whom the above Regulation applies. The legal references are given in Table 2 of the derivation tables.

- 10 Republic of Ireland users should refer to the underlying legislation when using the FRSSE. The Republic of Ireland legal requirements set out in the derivation tables are intended to reflect company law as applicable to accounting periods beginning on or after 6 April 2008.

## **Status of the FRSSE**

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- 11 Legal advice has been obtained that in accounting standards smaller entities may properly be allowed exemptions or different treatment provided that such differences are justified on rational grounds. The Board will have regard to the criteria given in the 'Status of the FRSSE' section in determining whether such rational grounds exist.
- 12 The summary of advice regarding the status of the FRSSE given by Richard Sykes QC in December 1995 is reproduced below:

"I do not see any conflict with the law or likely weakening of the authority of ASB or FRRP<sup>53</sup> as respects the upholding of Standards provided that

- (i) the treatment required by the FRSSE is the same as that required by existing Standards or is a simplified version of that treatment; or
- (ii) in a case where a future Standard calls for a new treatment for Big GAAP<sup>54</sup> Companies only and which is also likely to be significant to small companies, ASB is able to justify on rational grounds any lack of a change in treatment for smaller entities when the FRSSE is in due course revised;
- (iii) in a case where in the future the FRSSE requires a treatment which is materially different from then existing Standards on a significant matter ASB is able to justify on rational grounds such different treatment in the case of smaller entities.
- (iv) it is recognised that the starting point for deciding how a smaller entity will account for something not covered by the FRSSE will be existing practice and that the smaller entity must be able to justify its departure from such practice on rational grounds related to its size. Where the matter is covered by a Big GAAP Standard, that Standard would provide the obvious source in determining existing practice.

Rational grounds for justifying different treatments might include:

- (i) the different nature of entities;
- (ii) particularly if the different treatment is in the area of disclosure, the different users of their financial statements; and
- (iii) established practices existing at the time of issue of a Standard or FRSSE revision."

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<sup>53</sup> Financial Reporting Review Panel.

<sup>54</sup> Generally accepted accounting practice.

## Appendix II

### Accounting for Retirement Benefits: Defined Benefit Schemes

- 1 The following requirements should be regarded as standard:
  - (a) **Assets** in a **defined benefit scheme** should be measured at their **fair value** at the balance sheet date.
  - (b) **Defined benefit scheme liabilities** should be measured on an actuarial basis using the **projected unit method**. The **scheme liabilities** comprise both any benefits promised under the formal terms of the scheme and any constructive **obligations** for further benefits.
  - (c) The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the **scheme liabilities**. The assumptions are ultimately the responsibility of the **directors** (or equivalent) but should be set upon advice given by an actuary. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.
  - (d) **Defined benefit scheme liabilities** should be discounted at the current rate of return on a high quality corporate bond of equivalent currency and term.
  - (e) Full actuarial valuations by a professionally qualified actuary should be obtained for a **defined benefit scheme** at intervals not exceeding three years. The actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions.
  - (f) The surplus/deficit in a **defined benefit scheme** is the excess/shortfall of the value of the **assets** in the scheme over/below the present value of the **scheme liabilities**. The employer should **recognise** an **asset** to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme. The employer should **recognise** a **liability** to the extent that it reflects its legal or constructive **obligation**.
  - (g) Any unpaid contributions to the scheme should be presented in the balance sheet as a creditor due within one year. The defined benefit **asset** or **liability** should be presented separately on the face of the balance sheet:
    - (i) in balance sheets of the type prescribed for small companies in the United Kingdom by the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008<sup>55</sup>, format 1 after item J Accruals and deferred income but before item K Capital and reserves; and
    - (ii) in balance sheets of the type prescribed for small companies in the United Kingdom by the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, format 2: any **asset** after ASSETS item D Prepayments and accrued income and any **liability** after LIABILITIES item D Accruals and deferred income.
  - (h) The **deferred tax** relating to the defined benefit **asset** or **liability** should be offset against the defined benefit **asset** or **liability** and not included with other **deferred tax assets** or **liabilities**:
  - (i) The components of the change in the defined benefit **asset** or **liability** (other than those arising from contributions to the scheme) should be presented separately in the performance statements as follows:

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<sup>55</sup> There is no equivalent to Statutory Instrument 2008/409 'The Small Companies and Groups (Accounts and Directors Report) Regulations 2008' in companies legislation in the Republic of Ireland. See the derivation table on the FRC website for Republic of Ireland legal requirements.

- (i) the **current service cost** should be included within operating profit in the profit and loss account;
  - (ii) the net of the **interest cost** and the expected return on assets should be included as other finance costs (or income) adjacent to interest;
  - (iii) actuarial gains and losses should be recognised in the statement of total recognised gains and losses;
  - (iv) **past service costs** should be **recognised** in the profit and loss account in the period in which the increases in benefit vest; and
  - (v) losses arising on a **settlement** or **curtailment** should be **recognised** in the profit and loss account when the employer becomes demonstrably committed to the transaction (gains should only be **recognised** once all parties whose consent is required are irrevocably committed).
- (j) The following disclosures should be made in respect of a **defined benefit scheme**:
- (i) the nature of the scheme (i.e. **defined benefit**);
  - (ii) the date of the most recent full actuarial valuation on which the amounts in the financial statements are based. If the actuary is an employee or officer of the reporting entity, or of the group of which it is a member, this fact should be disclosed;
  - (iii) the contribution made in respect of the accounting period and any agreed contribution rates for future years; and
  - (iv) for closed schemes and those in which the age profile of the active membership is rising significantly, the fact that under the **projected unit method** the **current service cost** will increase as the members of the scheme approach retirement.
- (k) The **fair value** of the scheme **assets**, the present value of the scheme **liabilities** based on the accounting assumptions and the resulting surplus or deficit should be disclosed in a note to the financial statements. Where the **asset** or **liability** in the balance sheet differs from the surplus or deficit in the scheme, an explanation of the difference should be given. An analysis of the movements during the period in the surplus or deficit in the scheme should be given.

## Appendix III

### Illustrative Examples and Practical Considerations

This Appendix contains illustrative examples and practical considerations for general guidance and does not form part of the Financial Reporting Standard. The best form of reporting will depend on individual circumstances.

#### Example: Statement of Total Recognised Gains and Losses

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	2002	2001
	£	as restated £
Profit for the financial year	29,000	7,000
Unrealised surplus on revaluation of property	4,000	6,000
Unrealised (loss) /gain on trade investment	(3,000)	7,000
Total recognised gains and losses relating to the year	30,000	<u>20,000</u>
Prior year adjustment (as explained in note x)	<u>(10,000)</u>	
Total gains and losses recognised since last annual report	<u>20,000</u>	

#### Example: Disclosure – defined contribution pension scheme

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The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £50,000 (2001 £45,000). Contributions totalling £2,500 (2001 £1,500) were payable to the fund at the year-end and are included in creditors.

#### Example: Disclosure – defined benefit pension scheme<sup>56</sup>

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The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was as at 31 December 2005 which has been updated to reflect conditions at the balance sheet date. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment returns would be 6 per cent per year, that salary increases would average 4 per cent per year and that present and future pensions would increase at the rate of 3 per cent per year.

The pension charge for the year was £46,000 (2005 £25,000). This included £12,000 (2005 £nil) in respect of past service costs. The contributions of the company and employees will remain at 10 per cent and 5 per cent of earnings respectively.

The defined benefit scheme is closed to new members and so under the projected unit method the current service cost would be expected to increase over time as members of the scheme approach retirement.

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<sup>56</sup> This example reflects the disclosure requirements of paragraph 1 of Appendix II.

Value of scheme assets and liabilities	2006	2005
	£	£
Market value of assets	1,488,000	962,000
Present value of scheme liabilities	(1,009,000)	(758,000)
Pension scheme surplus/(deficit)	479,000	204,000
Related deferred tax asset/(liability)	(144,000)	(61,000)
Net pension scheme asset/(liability)	335,000	143,000
Movements in year	2006	2005
	£	£
Pension scheme surplus/(deficit) at beginning of year	204,000	92,000
Current service cost	(34,000)	(25,000)
Cash contribution	25,000	35,000
Past service costs	(12,000)	0
Other finance income	20,000	11,000
Actuarial gain	276,000	91,000
Pension scheme surplus/(deficit) at end of year	479,000	204,000

### **Practical considerations: Stocks and long-term contracts**

Many of the problems involved in arriving at the amount at which stocks and long-term contracts are stated in financial statements are of a practical nature rather than resulting from matters of principle. The following paragraphs discuss some particular areas in which difficulty may be encountered.

#### **The allocation of overheads**

- 1 Production overheads are included in the cost of conversion together with direct labour, direct expenses and subcontracted work. This inclusion is a necessary corollary of the principle that expenditure should be included to the extent to which it has been incurred in bringing the product 'to its present location and condition'. However, all abnormal conversion costs (such as exceptional spoilage, idle capacity and other losses) that are avoidable under normal operating conditions need, for the same reason, to be excluded.
- 2 Where firm sales contracts have been entered into for the provision of goods or services to customer's specification, overheads relating to design, and marketing and selling costs incurred before manufacture, may be included in arriving at cost.
- 3 The costing methods adopted by a business are usually designed to ensure that all direct material, direct labour, direct expenses and subcontracted work are identified and charged on a reasonable and consistent basis, but problems arise on the allocation of overheads, which must usually involve the exercise of personal judgement in the selection of an appropriate convention.
- 4 The classification of overheads necessary to achieve this allocation takes the function of the overhead as its distinguishing characteristic (e.g. whether it is a function of production, marketing, selling or administration), rather than whether the overhead tends to vary with time or with volume.
- 5 The costs of general management, as distinct from functional management, are not directly related to current production and are, therefore, excluded from the cost of conversion and, hence, from the cost of stocks and long-term contracts.

- 6 In the case of smaller organisations whose management may be involved in the daily administration of each of the various functions, particular problems may arise in practice in distinguishing these general management overheads. In such organisations the costs of management may fairly be allocated on suitable bases to the functions of production, marketing, selling and administration.
- 7 Problems may also arise in allocating the costs of central service departments, the allocation of which should depend on the function or functions that the department is serving. For example, the accounts department will normally support the following functions:
- (a) production – by paying direct and indirect production wages and salaries, by controlling purchases and by preparing periodic financial statements for the production units;
  - (b) marketing and distribution – by analysing sales and by controlling the sales ledger; and
  - (c) general administration – by preparing management accounts and annual financial statements and budgets, by controlling cash resources and by planning investments.

Only those costs of the accounts department that can reasonably be allocated to the production function fall to be included in the cost of conversion.

- 8 The allocation of overheads included in the valuation of stocks and long-term contracts needs to be based on the company's normal level of activity, taking one year with another. The governing factor is that the cost of unused capacity should be written off in the current year. In determining what constitutes 'normal' the following factors need to be considered:
- (a) the volume of production that the production facilities are intended by their designers and by management to produce under the working conditions (e.g. single or double shift) prevailing during the year;
  - (b) the budgeted level of activity for the year under review and for the ensuing year; and
  - (c) the level of activity achieved both in the year under review and in previous years.

Although temporary changes in the load of activity may be ignored, persistent variation should lead to revision of the previous norm.

- 9 Where management accounts are prepared on a marginal cost basis, it will be necessary to add to the figure of stocks so arrived at the appropriate proportion of those production overheads not already included in the marginal cost.
- 10 The adoption of a conservative approach to the valuation of stocks and long-term contracts has sometimes been used as one of the reasons for omitting selected production overheads. In so far as the circumstances of the business require an element of prudence in determining the amount at which stocks and long-term contracts are stated, this needs to be taken into account in the determination of net realisable value and not by the exclusion from cost of selected overheads.

### **Methods of costing**

- 11 It is frequently not practicable to relate expenditure to specific units of stocks and long-term contracts. The ascertainment of the nearest approximation to cost gives rise to two problems:
- (a) the selection of an appropriate method for relating costs to stocks and long-term contracts (e.g. job costing, batch costing, process costing, standard costing);



- (b) the selection of an appropriate method for calculating the related costs where a number of identical items have been purchased or made at different times (e.g. unit cost, average cost or 'first in, first out' (FIFO)).
- 12 In selecting the methods referred to in paragraph 11(a) and (b), management must exercise judgement to ensure that the methods chosen provide the fairest practicable approximation to cost. Furthermore, where standard costs are used they need to be reviewed frequently to ensure that they bear a reasonable relationship to actual costs obtaining during the period. Methods such as base stock and 'last in, first out' (LIFO) are not usually appropriate methods of stock valuation because they often result in stocks being stated in the balance sheet at amounts that bear little relationship to recent cost levels. When this happens, not only is the presentation of current assets misleading, but there is potential distortion of subsequent results if stock levels reduce and out-of-date costs are drawn into the profit and loss account.
- 13 The method of arriving at cost by applying the latest purchase price to the total number of units in stock is unacceptable in principle because it is not necessarily the same as actual cost and, in times of rising prices, will result in the taking of a profit that has not been realised.
- 14 One method of arriving at cost, in the absence of a satisfactory costing system, is the use of selling price less an estimated profit margin. This is acceptable only if it can be demonstrated that the method gives a reasonable approximation of the actual cost.
- 15 In industries where the cost of minor by-products is not separable from the cost of the principal products, stocks of such by-products may be stated in accounts at their net realisable value. In this case the costs of the main products are calculated after deducting the net realisable value of the by-products.

#### **The determination of net realisable value**

- 16 The initial calculation of provisions to reduce stocks from cost to net realisable value may often be made by the use of formulae based on predetermined criteria. The formulae normally take account of the age, movements in the past, expected future movements and estimated scrap values of the stock, as appropriate. Whilst the use of such formulae establishes a basis for making a provision that can be consistently applied, it is still necessary for the results to be reviewed in the light of any special circumstances that cannot be anticipated in the formulae, such as changes in the state of the order book.
- 17 Where a provision is required to reduce the value of finished goods below cost, the stocks of the parts and subassemblies held for the purpose of the manufacture of such products, together with stocks on order, need to be reviewed to determine if provision is also required against such items.
- 18 Where stocks of spares are held for sale, special consideration of the factors in paragraph 16 will be required in the context of:
- (a) the number of units sold to which they are applicable;
  - (b) the estimated frequency with which a replacement spare is required; and
  - (c) the expected useful life of the unit to which they are applicable.
- 19 Events occurring between the balance sheet date and the date of completion of the financial statements need to be considered in arriving at the net realisable value at the balance sheet date (e.g. a subsequent reduction in selling prices). However, no reduction falls to be made when the realisable value of material stocks is less than the purchase price, provided that the goods into which the materials are to be incorporated can still be sold at a profit after incorporating the materials at cost price.

## **The application of net realisable value**

- 20 The principal situations in which net realisable value is likely to be less than cost are where there has been:
- (a) an increase in costs or a fall in selling price;
  - (b) physical deterioration of stocks;
  - (c) obsolescence of products;
  - (d) a decision as part of a company's marketing strategy to manufacture and sell products at a loss; and
  - (e) errors in production or purchasing.

Furthermore, when stocks are held that are unlikely to be sold within the turnover period normal in that company (i.e. excess stocks), the impending delay in realisation increases the risk that the situations outlined in (a)-(c) above may occur before the stocks are sold and needs to be taken into account in assessing net realisable value.

## **Long-term contracts**

- 21 In ascertaining costs of long-term contracts it is not normally appropriate to include interest payable on borrowed money. However, in circumstances where sums borrowed can be identified as financing specific long-term contracts, it may be appropriate to include such related interest in cost, in which circumstances the inclusion of interest and the amount of interest so included should be disclosed in a note to the financial statements.
- 22 In some businesses, long-term contracts for the supply of services or manufacture and supply of goods exist where the prices are determined and invoiced according to separate parts of the contract. In these businesses the most appropriate method of reflecting profits on each contract is usually to match costs against performance of the separable parts of the contract, treating each such separable part as a separate contract. In such instances, however, future revenues from the contract need to be compared with future estimated costs and provision made for any foreseen loss.
- 23 Turnover (ascertained in a manner appropriate to the industry, the nature of the contracts concerned and the contractual relationship with the customer) and related costs should be recorded in the profit and loss account as contract activity progresses. Turnover may sometimes be ascertained by reference to valuation of the work carried out to date. In other cases, there may be specific points during a contract at which individual elements of work done with separately ascertainable sales and values and costs can be identified and appropriately recorded as turnover (e.g. because delivery or customer acceptance has taken place).
- 24 In determining whether the stage has been reached at which it is appropriate to recognise profit, account should be taken of the nature of the business concerned. It is necessary to define the earliest point for each particular contract before which no profit is taken up, the overriding principle being that there can be no attributable profit until the outcome of a contract can reasonably be foreseen. Of the profit that in the light of all the circumstances can be foreseen with a reasonable degree of certainty to arise on completion of the contract, there should be regarded as earned to date only that part which prudently reflects the amount of work performed to date. The method used for taking up such profit needs to be consistently applied.
- 25 In calculating the total estimated profit on the contract, it is necessary to take into account not only the total costs to date and the total estimated further costs to completion (calculated by reference to the same principles as were applied to cost to date) but also the estimated future costs of rectification and guarantee work, and any other future work to

be undertaken under the terms of the contract. These are then compared with the total sales value of the contract. In considering future costs, it is necessary to have regard to likely increases in wages and salaries, to likely increases in the price of raw materials and to rises in general overheads, so far as these items are not recoverable from the customer under the terms of the contract.

- 26 Where approved variations have been made to a contract in the course of it and the amount to be received in respect of these variations has not yet been settled and is likely to be a material factor in the outcome, it is necessary to make a conservative estimate of the amount likely to be received and this is then treated as part of the total sales value. On the other hand, allowance needs to be made for foreseen claims or penalties payable arising out of delays in completion or from other causes.
- 27 The settlement of claims arising from circumstances not envisaged in the contract or arising as an indirect consequence of approved variations is subject to a high level of uncertainty relating to the outcome of future negotiations. In view of this, it is generally prudent to recognise receipts in respect of such claims only when negotiations have reached an advanced stage and there is sufficient evidence of the acceptability of the claim in principle to the purchaser, with an indication of the amount involved also being available.
- 28 The amounts to be included in the year's profit and loss account will be both the appropriate amount of turnover and the associated costs of achieving that turnover, to the extent that these amounts exceed corresponding amounts recognised in previous years. The estimated outcome of a contract that extends over several accounting years will nearly always vary in the light of changes in circumstances and for this reason the result of the year will not necessarily represent the proportion of the total profit on the contract that is appropriate to the amount of work carried out in the period; it may also reflect the effect of changes in circumstances during the year that affect the total profit estimated to accrue on completion.

### **Practical considerations – Consignment stock**

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- 29 In determining whether consignment stock is in substance an asset of the dealer, it is necessary to identify whether the dealer has access to the benefits of the stock and exposure to the risks inherent in those benefits. Therefore, to assist in using paragraph 8.9 of the FRSSE, the following table is provided.

<b>Indications that the stock is not an asset of the dealer at delivery</b>	<b>Indications that the stock is an asset of the dealer at delivery</b>
The manufacturer can require the dealer to return stock (or to transfer stock to another dealer) without compensation or Penalty paid by the dealer to prevent returns/transfers of stock at the manufacturer's request.	The manufacturer cannot require the dealer to return or transfer stock or Financial incentives given to persuade the dealer to transfer stock at the manufacturer's request.
The dealer has unfettered right to return stock to the manufacturer without penalty and actually exercises the right in practice.	The dealer has no right to return stock or is commercially compelled not to exercise its right of return.

<p>The manufacturer bears obsolescence risk, e.g.:</p> <ul style="list-style-type: none"> <li>– obsolete stock is returned to the manufacturer without penalty or</li> <li>– financial incentives given by the manufacturer to prevent stock being returned to it (e.g. on model change or if it becomes obsolete).</li> </ul>	<p>The dealer bears obsolescence risk, e.g.:</p> <ul style="list-style-type: none"> <li>– penalty charged if the dealer returns stock to the manufacturer or</li> <li>– obsolete stock cannot be returned to the manufacturer and no compensation is paid by the manufacturer for losses due to obsolescence.</li> </ul>
<p>Stock transfer price charged by the manufacturer is based on the manufacturer's list price at date of transfer of legal title.</p>	<p>Stock transfer price charged by the manufacturer is based on the manufacturer's list price at date of delivery.</p>
<p>The manufacturer bears slow movement risk, e.g.:</p> <ul style="list-style-type: none"> <li>– transfer price set independently of time for which the dealer holds stock, and there is no deposit.</li> </ul>	<p>The dealer bears slow movement risk, e.g.:</p> <ul style="list-style-type: none"> <li>– the dealer is effectively charged interest as transfer price or other payments to the manufacturer vary with time for which the dealer holds stock or</li> <li>– the dealer makes a substantial interest-free deposit that varies with the levels of stock held.</li> </ul>

### Practical considerations – Debt factoring

30 To assist in using paragraphs 8.10 to 8.12 of the FRSSE, the following table is provided.

<b>Indications that derecognition is appropriate (debts are not an asset of the seller)</b>	<b>Indications that a linked presentation is appropriate</b>	<b>Indications that a separate presentation is appropriate (debts are an asset of the seller)</b>
Transfer is for a single, non-returnable fixed sum.	Some non-returnable proceeds received, but the seller has rights to further sums from the factor (or vice versa) whose amount depends on whether or when debtors pay.	Finance cost varies with speed of collection of debts, e.g.: <ul style="list-style-type: none"> <li>– by adjustment to consideration for original transfer <i>or</i></li> <li>– subsequent transfers priced to recover costs of earlier transfers.</li> </ul>
There is no recourse to the seller for losses.	There is either no recourse for losses, or such recourse has a fixed monetary ceiling.	There is full recourse to the seller for losses.
<p>The factor is paid all amounts received from the factored debts (and no more).</p> <p>The seller has no rights to further sums from the factor.</p>	<p>The factor is paid only out of amounts collected from the factored debts, and the seller has no right or obligation to repurchase debts.</p>	<p>The seller is required to repay amounts received from the factor on or before a set date, regardless of timing or amounts of collections from debtors.</p>

## Practical considerations – Bill and hold arrangements

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- 31 Under a bill and hold arrangement, a seller enters into a contractual arrangement with a customer for the supply of goods where there is transfer of title but physical delivery is deferred to a later date.

### Analysis

- 32 The purpose of the analysis below is to determine whether, in the circumstances described in paragraph 37, the seller should:

- (a) recognise turnover and a right to consideration; or
- (b) continue to recognise the goods as stock.

- 33 In accordance with the general principles set out in Section 4 of the FRSSE the goods cease to be assets of the seller and become assets of the customer (and in exchange the seller obtains the **right to consideration**) when the seller transfers to the customer access to the significant benefits relating to the goods and exposure to the risks inherent in those benefits. From the customer's perspective, the principal benefits and risks include:

### Benefits

- (a) the right to obtain the goods as and when required;
- (b) the sole right to the goods for their sale to a third party and the future cash flows from such a sale; and
- (c) insulation from changes in prices charged by the seller (e.g. because the seller has revised its standard price list).

### Risks

- (a) slow movement, resulting in increased costs of financing and holding of the goods, and an increased risk of obsolescence; and
  - (b) being compelled to take delivery of goods that have become obsolete or not readily saleable, resulting in no onward sale or a sale at a reduced price.
- 34 In order for the seller to have the right to recognise changes in its assets or liabilities, and turnover, arising from its **right to consideration** in respect of the bill and hold arrangement, the terms of the contractual arrangement between the seller and the customer should include all of the following characteristics:
- (a) the goods should be complete and ready for delivery;
  - (b) the seller should not have retained any significant **performance obligations** other than the safekeeping of the goods and their shipment when the customer requests this;
  - (c) subject to any rights of return, the seller should have obtained the **right to consideration** regardless of whether the goods are shipped, at the customer's request, to its delivery address. Where rights of return are granted, particular consideration is required of the commercial substance of the related sales, especially the transfer of risk. Rights of return are addressed at paragraphs 43-53 below;
  - (d) the goods should be identified separately from the seller's other stock and should not be capable of being used to fill other orders that are received between the date of the bill and hold sale and shipment of the goods to the customer; and
  - (e) the bill and hold terms should be in accordance with the commercial objectives of the customer and not the seller. For example, where the delay in the delivery of the

goods is to meet the customer's need for flexibility in the timing and location of delivery, and the conditions set out in paragraphs (a) to (d) above are met, it will be appropriate for the seller to recognise changes in assets or liabilities, and turnover.

### Accounting

Substance of the transaction is that the goods represent an asset of the customer

- 35 Where it is concluded that the stock is an asset of the customer, resulting in the seller having a **right to consideration**, the seller should recognise the related changes in its assets or liabilities, and turnover.

Substance of the transaction is that the goods represent an asset of the seller

- 36 Where it is concluded that the stock remains an asset of the seller, it should be retained on the seller's balance sheet. Any amounts received from the customer should be included within creditors in accordance with paragraph 4.2 of the FRSSE.

### Practical considerations – Sales with rights of return

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#### Features

- 37 The terms of contractual arrangements may allow customers to return goods that they have purchased and obtain a refund or release from the **obligation** to pay.
- 38 Rights of return may be included explicitly or implicitly within contractual arrangements. Alternatively, they may arise through statutory requirements.

#### Analysis

- 39 The purpose of the analysis below is to determine the effect of rights of return on a seller's recognition of changes in its assets or liabilities, and turnover.
- 40 The inclusion of rights of return in a contractual arrangement may affect both the quantification of the seller's **right to consideration**, compared to an otherwise identical arrangement which does not have these rights, and the point at which the seller should recognise that right. This is because rights of return give rise to a contractual **obligation** on the part of the seller to transfer economic benefits to its customer and in some cases oblige the seller to defer recognition of the sales transaction so long as substantially all of the risks associated with the goods are retained.
- 41 The seller's recognition of its **right to consideration** and contractual **obligation** to transfer economic benefits to its customer in respect of rights of return are linked transactions. In consequence, changes in the seller's assets or liabilities should reflect the loss expected to arise from the rights of return. Turnover should exclude the sales value of estimated returns.
- 42 A seller will generally be able to estimate reliably the sales value of returns, having regard to risk, which may be less than its maximum potential **obligation**. It will generally be possible to derive a **reliable** estimate from historical experience of the amount of comparable goods returned as a proportion of comparable sales.
- 43 If a seller is unable to estimate reliably the expected value of returns, the maximum potential amount should be calculated in accordance with the terms of its contractual arrangement with the customer and excluded from turnover.

- 44 In some cases, the risk of return may be so significant that substantially all of the risks associated with the goods are retained by the seller and accordingly the seller does not have the **right to consideration**. In such circumstances the seller should not recognise any changes in its assets or liabilities, and turnover, from the transaction. Any amounts received from the customer should be accounted for as a payment in advance, in accordance with paragraph 4.2 of the FRSSE.

### **Accounting**

- 45 A seller should record changes in its assets or liabilities, and turnover, to the extent that its **performance** has earned it the **right to consideration**, taking account of any expected loss. The amount recorded as turnover should exclude the sales value of estimated returns from the total sales value of the goods supplied to customers.
- 46 At each reporting date, the seller should review its estimate of returns, having regard to changes in expectations and the expiry of contractual rights of return. Subsequent adjustments to the estimate should be recorded within revenue.
- 47 Where a seller has been precluded from recognising changes in its assets or liabilities, and turnover, because substantially all of the risks associated with the goods are retained and so it has not earned the **right to consideration**, it should recognise these changes and turnover on the earlier of the dates on which:
- (a) it is capable of estimating the level of returns with **reliability**; and
  - (b) the right of return expires or is surrendered.

## **Practical considerations – Presentation of turnover as principal or as agent**

### **Features**

- 48 A seller may act on its own account when contracting with its customers for the supply of goods in return for the right to consideration. In such transactions the seller is frequently referred to as a principal.
- 49 Alternatively, a seller may act as an intermediary, earning a fee or commission in return for arranging the provision of goods or services on behalf of a principal. In such transactions, the seller is frequently referred to as an agent.

### **Analysis**

- 50 The purpose of the analysis below is to determine whether a seller obtains the right to consideration by performing its contractual obligations:
- (a) as principal in an exchange transaction with its customer; or
  - (b) as agent in relation to a transaction between its principal and the principal's customer.
- 51 The general principles of the standard require that, in order for a seller to account for exchange transactions as principal, it should normally have exposure to all significant benefits and risks associated with at least one of the following:
- (a) Selling price: the ability, within economic constraints, to establish the selling price with the customer, either directly or, where the selling price of an item is fixed, indirectly by providing additional goods or services or adjusting the terms of a linked transaction; or
  - (b) Stock: exposure to the risks of damage, slow movement and obsolescence, and changes in suppliers' prices.

- 52 Where the seller has not disclosed that it is acting as agent, there is a rebuttable presumption that it is acting as principal.
- 53 Additional factors which indicate that a seller may be acting as principal include:
- (a) performance of part of the services, or modification to the goods supplied;
  - (b) assumption of credit risk; and
  - (c) discretion in supplier selection.
- 54 In contrast, where a seller acts as agent it will not normally be exposed to the majority of the benefits and risks associated with the exchange transaction. Agency arrangements will typically include the following characteristics:
- (a) the seller has disclosed the fact that it is acting as agent;
  - (b) once the seller has confirmed its customer's order with a third party, the seller will normally have no further involvement in the performance of the ultimate supplier's contractual obligations;
  - (c) the amount that the seller earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer; and
  - (d) the seller bears no stock or credit risk, other than in circumstances where it receives additional consideration from the ultimate supplier in return for its assumption of this risk.

### **Accounting**

#### Seller acts as principal

- 55 Where the substance of a transaction is that the seller acts as principal, it should report turnover based on the gross amount received or receivable in return for its performance under the contractual arrangement.

#### Seller acts as agent

- 56 Where the substance of a transaction is that the seller acts as agent, it should report as turnover the commission or other amounts received or receivable in return for its performance under the contractual arrangement. Any amounts received or receivable from the customer that are payable to the principal should not be included in the agent's turnover.

#### Illustrations

- 57 A seller acts as a building contractor for the construction of a new office block. An analysis of the arrangement shows that the terms of the seller's contract with its customer include a negotiated selling price, credit risk for amounts due from the customer, primary responsibility for the construction and quality of the new building and discretion as to whether it carries out the work itself or employs subcontractors. The seller is acting as principal and should account for the gross amount of turnover, regardless of whether it carries out the work itself or employs subcontractors to carry out part or all of the construction activities.
- 58 A seller acts as an online retailer from a website, where it advertises holidays. An analysis of the arrangement shows that it acts as an intermediary between its customers and the ultimate sellers of the holidays and that it does not set the selling price. Its contractual terms of business include an exclusion of any liability to its customers once they have been put in touch with the ultimate sellers. The seller is paid a fee for each customer that purchases a holiday from an ultimate seller and has no involvement in the transaction after



it has put the customer in touch with the ultimate seller. The seller is acting as agent and its turnover should include only the fees it receives from the ultimate seller.

- 59 A department store provides space for concessionaires to sell products and receives a fixed amount of rental income from the concessionaire. An analysis of the factors discussed in paragraphs 57-60 shows that the concessionaire is acting as principal in an exchange transaction with its customers and is entitled to the amounts received from the sale of the goods and services. In these circumstances, the concessionaire should include within its turnover the amounts received or receivable in respect of the sale of the goods and services. The department store should not include within its turnover the value of the concessionaire's sales.

Disclosure – Seller acts as agent

- 60 Where a seller acts as agent, it is encouraged, where practicable, to disclose the gross value of sales throughput as additional, non-statutory information. Where such disclosure is given, a brief explanation of the relationship of recognised turnover to the gross value of sales throughput should be given.

### **Practical considerations – Classification of preference shares**

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- 61 Paragraph 12.1 of the FRSSE provides an example of a preference share that is classified as a financial liability. The following analysis provides further guidance on the classification of preference shares as financial liabilities or equity instruments.

#### **Illustrative features of preference shares**

- 62 A company issues preference shares that:
- (a) carry a fixed right to cumulative dividends;
  - (b) have the same voting rights as the ordinary shares;
  - (c) the issuer is under no obligation to redeem these shares (but may be able to choose to redeem them); and
  - (d) in a formal winding up the preference shares rank above the ordinary shares and receive par value.

#### **Analysis**

- 63 In determining whether the preference shares are a financial liability or an equity instrument the issuer will need to assess the particular rights attaching to the shares.
- 64 In the straightforward case where the preference shares provide for redemption on a set date they would be classified as financial liabilities. The classification is clear from looking at the rights attached to the shares i.e. at the set redemption date the issuer has an obligation to transfer financial assets to the holder of the preference shares.
- 65 For preference shares that the issuer is not obliged to redeem the appropriate classification is determined by the other rights that attach to them (i.e. based on an assessment of the substance of the contractual arrangements and by reference to the definitions of financial liabilities and equity instruments). Therefore only when the distributions to the holders of the preference shares are at the discretion of the issuer will such shares be classified as equity instruments. It should be noted there is a difference between an expectation of dividend payments and an obligation.
- 66 One feature of the above preference shares is that the holders are entitled to fixed rights to cumulative dividends which are not at the discretion of the issuer. This would indicate that

the issuer has an obligation to transfer financial assets to the holders of the preference shares. The shares would therefore be classified as financial liabilities<sup>57</sup>.

### Example: Cash flow statement

Entities are encouraged, but not required, to report some cash flow information using the indirect method. An example of a presentation of an indirect method of cash flow statement is given below, as an indication of the type of statements that smaller entities may wish to include in their financial statements. Comparative figures are not shown in the example.

	£	£
Cash generated from operations		
Operating profit/(loss)	(5,050)	
Reconciliation to cash generated from operations:		
Depreciation	245	
Increase in stocks	(194)	
Decrease in trade debtors	67,440	
Decrease in trade creditors	(4,678)	
Increase in other creditors	3,127	
	<u>          </u>	60,890
Cash from other sources		
Interest received	150	
Issues of shares for cash	5,500	
New long-term bank borrowings	4,500	
Proceeds from sale of tangible fixed assets	50	
	<u>          </u>	10,200
Application of cash		
Interest paid	(3,000)	
Tax paid	(29,220)	
Dividends paid	(10,000)	
Purchase of fixed assets	(10,500)	
Repayment of amounts borrowed	(3,000)	
	<u>          </u>	(55,720)
Net increase in cash		15,370
Cash at bank and in hand less overdrafts at beginning of year		(4,321)
Cash at bank and in hand less overdrafts at end of year		11,049
Consisting of:		
Cash at bank and in hand		11,549
Overdrafts included in bank loans and overdrafts falling due within one year		(500)
		<u>          </u>
		11,049

#### Major non-cash transactions: finance leases

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2,850.

<sup>57</sup> In arriving at this conclusion, it is assumed that the dividend represents a market rate of return and that the instrument was issued at fair value.

## Example: Discounting when making a provision

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A company faces a fine for operating without due regard to safety legislation. The company has been notified of the case and expects to lose it but does not expect the fine (of £100,000) to be payable for five years. How much should be provided for if the amount and timing of the fine is assumed to be certain and the market rate on relevant government bonds is five per cent?

The discounted amount for the payment of £100,000 to be made in five years' time is:

$$\frac{£100,000}{(1 + (5/100))^5} = £78,353$$

Therefore, in the current year £78,353 is recorded as an expense and a provision in the company's books, rather than £100,000.

In the subsequent years the discount will unwind, increasing the amount of the provision and resulting in a debit to the profit and loss account (shown as a financial expense separate from interest) as follows:

	£
year 1 (78,353 × 5%)	3,918
year 2 ((78,353 + 3,918) × 5%)	4,113
year 3 etc	4,319
year 4 etc	4,535
year 5 etc	4,762
	<hr/>
	21,647
Add amount originally recorded	78,353
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Total provision at end of year 5	100,000

## Appendix IV

### The Development of the FRSSE

- 1 For many years there has been different reporting by different types of company: the requirements for listed public companies have been more onerous than for private companies and those for larger companies more onerous than for smaller companies. In particular, the provisions of the EC Fourth and Seventh Company Law Directives have been adopted in the UK and the Republic of Ireland, through which the disclosure requirements for large, medium-sized and small companies have been varied, allowing small companies more extensive exemptions both in the abbreviated accounts to be filed with the registrar of companies and in the statutory accounts for shareholders.
- 2 The application of accounting standards for smaller companies has also been an issue for standard-setters. The Board, prompted by the concern to reduce burdens on business, asked the Consultative Committee of Accountancy Bodies (CCAB) to establish a Working Party to examine the issue and to undertake wide consultation with a view to recommending criteria for exempting certain types of entity from accounting standards on the grounds of size or relative lack of public interest.
- 3 The CCAB Working Party published a Consultative Document in November 1994. This proposed that the Board should exempt all entities that met the Companies Act definition of a small company from compliance with all but the five accounting standards and the UITF Abstract noted below, which would continue to apply.

SSAP 4	<i>Accounting for government grants</i>
SSAP 9	<i>Stocks and long-term contracts</i>
SSAP 13	<i>Accounting for research and development</i>
SSAP 17	<i>Accounting for post balance sheet events</i>
SSAP 18	<i>Accounting for contingencies</i>
UITF Abstract 7	<i>True and fair view override disclosures</i>
- 4 Comments in response to that Consultative Document supported the use of the small companies threshold and a change in the present system whereby small entities were required to comply with almost all accounting standards. However, there was no clear support for the proposal of piecemeal application of a limited number of standards. Analysis of the comments identified a number of recurrent themes, including the need for guidance on measurement issues and the suggestion that a codification of all standards should be undertaken as well as a comprehensive review of those standards that were perceived as needing revision or updating, particularly in the context of their application to smaller entities. On the latter point, the amount of time needed for this codification and review was recognised, as was the observation that it might not provide a complete solution for the issues faced by smaller entities.
- 5 Prompted by the comments received, the proposals in the DTI's Consultative Document 'Accounting Simplifications' published in May 1995 and the wish to focus on the needs of smaller entities, the CCAB Working Party proposed in its Paper 'Designed to fit', published in December 1995, that there should be a specific Financial Reporting Standard for Smaller Entities. To demonstrate that this approach was feasible, practical and capable of delivering benefits to those involved with financial statements for smaller entities, a draft FRSSE was included in 'Designed to fit'.
- 6 Letters of comment received in response to 'Designed to fit' indicated general support for a FRSSE that would apply to small companies and groups, as defined in companies legislation. Accordingly, the CCAB Working Party recommended to the Board that it should publish, as part of its due process, an Exposure Draft containing the proposed

FRSSE, amended as appropriate to incorporate comments made on the draft contained in 'Designed to fit'.

- 7 The Board, largely accepting the CCAB Working Party's recommendations, duly published an Exposure Draft of the proposed FRSSE in December 1996, based on the proposals in 'Designed to fit', but with three main differences. First, the proposed FRSSE in the Exposure Draft was capable of application to small groups, unlike the proposals in 'Designed to fit'. Secondly, guidance on debt factoring arrangements was included in the Exposure Draft. Lastly, the requirement in 'Designed to fit' for a summarised cash flow statement was omitted. This led to the issue of the FRSSE in November 1997.

### **Link with companies legislation**

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- 8 The FRSSE is linked with accounts drawn up in Great Britain under Schedule 8 to the Companies Act 1985<sup>58</sup> for the following reasons:
  - (a) it allows the establishment of a clearly distinguishable regime, i.e. the relevant statutory Schedule and the FRSSE. The importance of this was enhanced by the implementation of the Companies Act 1985 (Accounts of Small and Medium-Sized Companies and Minor Accounting Amendments) Regulations 1997 (SI 1997/220), which established a revised Schedule 8, containing all of the provisions applying to small companies; and
  - (b) it creates the link with the Schedule 8 provisions on a true and fair view, which may be of assistance to standard-setters and others in justifying different disclosure and any simplified measurement regime.

### **Matters considered in the development of the FRSSE issued in November 1997**

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#### **Application to small groups**

- 9 Small groups are not required by law to prepare consolidated accounts, and therefore in practice not many do so, at least on a statutory basis. The Board, however, agreed that it would be unfair to those small groups that voluntarily prepare group accounts, if they were not able to take advantage of the provisions in the FRSSE. To import all the necessary requirements from accounting standards and UITF Abstracts into the FRSSE to deal with consolidated accounts would have added substantially to its length and complexity, even though it would have been of interest to only a small percentage of entities. Accordingly, the Board preferred to extend the FRSSE in certain areas and then require small groups adopting the FRSSE to follow those accounting standards and UITF Abstracts that deal with consolidated financial statements. This approach was supported by the majority of respondents to the Exposure Draft commenting on the matter.

#### **Cash flow statements**

- 10 Consistently with the views of the majority of respondents to 'Designed to fit', the Exposure Draft did not propose any cash flow disclosures based on *FRS 1 (Revised 1996) Cash Flow Statements*. The majority of respondents to the Exposure Draft supported the deletion of the cash flow requirements. However, given that management of cash is fundamental to the success of small businesses, the Board agreed with the minority of respondents, mainly representing users of the financial statements, that a cash flow statement is important. It provides a useful focus for discussions with management, as well as a reference point for subsequent more detailed analysis that users might require.

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<sup>58</sup> The equivalent legislation in Northern Ireland is Schedule 8 to the Companies (Northern Ireland) Order 1986. There is no equivalent to Schedule 8 in companies legislation in the Republic of Ireland. See the derivation table on the FRC website for Republic of Ireland legal requirements.

Despite this, the Board recognised the difficulty of mandating a cash flow requirement when, previously, small entities had been exempt from such a requirement. Furthermore, the Board acknowledged that a cash flow format based on *FRS 1 (Revised 1996)* was not necessarily suitable or appropriate for smaller businesses.

- 11 The Board, therefore, while not mandating cash flow statements, strongly encourages smaller entities to provide such a statement voluntarily. Consultations suggested that it would be preferable to advocate only one method of cash flow presentation, for consistency and comparability. The direct method of cash flow statement, in a format similar to an entity's own cash forecasts and management accounts, may provide a link between management's cash projections and the financial statements. However, the indirect method is helpful in understanding the connection between the cash generated during a period and the resulting profit. Following consultation, the Board encourages the presentation of a cash flow statement using the indirect method as it is generally held to be more useful and better understood by many users of financial statements, as well as less costly to prepare.

### **Related party disclosures**

- 12 About half of the respondents to the Board's Exposure Draft of the FRSSE believed that the FRSSE should not include any of the provisions from FRS 8 Related Party Disclosures. They argued that they were unnecessary, given that Parts II and III of Schedule 6 to the Companies Act 1985 require the disclosure of dealings in favour of directors and connected persons. Furthermore, if there was a material transaction with a related party, possibly executed at other than fair value, then, where there was any doubt whether applying any provision of the FRSSE would be sufficient to give a true and fair view, adequate explanation in the notes to the accounts of the transaction or arrangement concerned and the treatment adopted would be required (paragraph 2.5).
- 13 The Board, however, shared the view of the other respondents that related party disclosures are needed for a proper understanding of an entity's operations and for a true and fair view, given that material related party transactions are generally more prevalent in smaller businesses. It also noted that, in respect of dealings in favour of directors and connected persons, the statutory provisions apply equally to companies of all sizes and although the provisions overlapped the disclosure requirements in FRS 8 in many respects, the FRS was broader in scope and, in particular, expressed more clearly than the Act the spirit of Schedule 6. It also clarified, to the benefit of both preparers and auditors, the disclosures necessary to meet the fundamental requirement that accounts should give a true and fair view.
- 14 The Board, however, accepted that the full requirements of FRS 8 were unduly onerous and could be reduced for smaller entities, without compromising the benefit of the disclosures. Accordingly, the FRSSE requires that only those related party transactions that are material to the reporting entity need be disclosed in the notes to the financial statements, even though the FRS requires the disclosure of some transactions that are material only in relation to the other related party.

### **FRS 5**

- 15 The FRSSE requires regard to be had to the substance of any arrangement or transaction, or series of such, into which an entity has entered. But it does not contain the extensive discussion in FRS 5 *Reporting the Substance of Transactions* on reflecting the substance of transactions. This is because small entities generally do not enter into complex transactions. However, the Board was advised that debt factoring and consignment stock may be a common feature of such entities and accordingly the provisions, principally in FRS 5's Application Notes, are likely to be of value to small entities. The relevant guidance in FRS 5 has therefore been included in the FRSSE.

## Subsequent amendments to the FRSSE

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### The FRSSE (effective March 1999)

- 16 On issuing the FRSSE, the Board acknowledged that it would need to be revised and updated periodically to reflect developments in financial reporting. The first such revision was issued in December 1998, and incorporated the relevant aspects of FRSs 9-11 and UITF Abstracts 18-22. The main changes were to align the requirements for entities applying the FRSSE with the basic measurement requirements of *FRS 10 Goodwill and Intangible Assets*, which was issued in December 1997, and *FRS 11 Impairment of Fixed Assets and Goodwill*, which was issued in July 1998.
- 17 The measurement requirements in the FRSSE were simplified, compared with those of FRS 10 and FRS 11, by:
- (a) setting 20 years as a maximum, rather than a presumed maximum that may be rebutted, for the useful economic lives assigned to intangible assets and goodwill arising on the acquisition of unincorporated businesses, thereby removing the need for annual exercises to forecast and discount future cash flows;
  - (b) removing the exception that allows recognition of internally developed intangible assets with market values and revaluation of any intangible asset with a market value;
  - (c) omitting the detailed requirements for calculating value in use (as part of recoverable amount) and the subsequent monitoring of cash flows for five years following an impairment review where recoverable amount has been based on value in use.
- 18 The Board acknowledged that in principle the options for smaller entities applying the FRSSE would be more restricted than those for entities applying FRS 10. However, the Board is of the opinion that it would not, in practice, be restricting the options, as smaller entities would rarely be in a position to take advantage of them. The Board has not incorporated the detailed requirements from FRS 11 in the FRSSE, in order to allow smaller entities greater flexibility by enabling simpler calculations to be used where appropriate, given that detailed cash flow projections of smaller businesses are often not readily available.

### The FRSSE (effective March 2000)

- 19 The second revision of the FRSSE was issued in December 1999. It incorporated the relevant aspects, modified and simplified where appropriate for smaller entities, of the four Financial Reporting Standards (FRSs 12-15) that were issued between July 1998 and June 1999.
- 20 The main changes were to update and add to the material relating to provisions and fixed assets, to reflect the issue of *FRSs 12 Provisions, contingent liabilities and contingent assets* and *15 Tangible fixed assets*. FRSs 13 and 14, which deal with financial instruments and earnings per share, respectively, were not addressed.
- 21 The detailed rules of FRS 12 relating to discounting were omitted from the FRSSE, as were the majority of the disclosure requirements. The requirements of FRS 15 were also simplified for inclusion in the FRSSE, particularly those relating to revaluations and the disclosure requirements.

### The FRSSE (effective June 2002)

- 22 The third revision of the FRSSE was issued in December 2001. It incorporated the relevant aspects, modified and simplified where appropriate for smaller entities of the four

Financial Reporting Standards (FRSs 16-19) that were issued between July 1999 and June 2001.

- 23 The main changes were to update the requirements relating to current and deferred tax to reflect the issue of FRS 16 *Current tax* and FRS 19 *Deferred tax*. The requirement for discounting of deferred tax balances in FRS 19 was not included and a number of presentational and disclosure requirements were omitted.
- 24 A new Appendix II was added to the FRSSE setting out the requirements for accounting for defined benefit schemes included in FRS 17 *Retirement benefits*. Some of the requirements of FRS 18 *Accounting policies* were incorporated into the FRSSE to ensure the framework underpinning the definition, selection and disclosure of accounting policies by FRSSE entities is consistent with that applied by other companies.

#### **The FRSSE (effective January 2005)**

- 25 The fourth edition of the FRSSE was issued in April 2005. In developing this revision, the Board considered the relevant aspects, modified and simplified as appropriate for smaller entities, of the two Financial Reporting Standards (FRS 20 and 21), amendments to FRS 5 and FRS 17 and eight UITF Abstracts (UITF Abstracts 31 to 38) that were issued between June 2001 and November 2004. The Board also considered the requirements of relevant companies legislation.
- 26 The main changes were to update the requirements for post balance sheet events to be consistent with FRS 21 and to incorporate the principles on revenue recognition from Application Note G to FRS 5. Specific guidance on “bill and hold arrangements”, “sales with rights of return” and “presentation of turnover as principal or as agent” were also included in Appendix III as these are transactions commonly undertaken by smaller entities. An additional disclosure example for a defined contribution pension scheme was also included in Appendix III.
- 27 The Board decided not to introduce any of the requirements from FRS 20 (IFRS 2) *Share-based Payment* into the FRSSE but proposed to consider further in a future update. It also decided not to reflect the requirements of UITF Abstracts 31 to 38 other than UITF Abstract 34 *Pre-contract costs* which deals with the costs incurred in bidding for and securing contracts to supply goods or services of the FRSSE. The Board also incorporated the requirements of UITF Abstract 40 as guidance in Appendix III.

#### **The FRSSE (effective January 2007)**

- 28 The amendments made to the January 2005 version of the FRSSE are largely based upon those proposed in the Exposure Draft on amending the FRSSE that was published in April 2006. In developing this revision, the Board was again advised by its specialist Committee on Accounting for Smaller Entities (CASE).
- 29 This fifth edition of the FRSSE was published in January 2007 and incorporates the relevant aspects, modified and simplified where appropriate for smaller entities, of the eight new Financial Reporting Standards (FRS 22 to FRS 29), two amendments to FRSs (FRS 2 and FRS 26) and two UITF Abstracts (UITF 39 and UITF 40) that have been issued since October 2004, when the last Exposure Draft of amendments to the FRSSE was published. It also considers FRS 20 *Share-based payment*, which was not addressed in the last amendment of the FRSSE, and changes in the company law financial reporting requirements affecting smaller entities.
- 30 The main question asked by the Board in publishing the Exposure Draft was whether the FRSSE should require smaller entities to apply the key principles of FRS20 for share-based payment arrangements. The majority of respondents argued against this proposal on the grounds that share-based payments were relatively uncommon for smaller entities



and that the costs of complying with FRS20 are likely to outweigh the benefits obtained by users of small company accounts. The Board acknowledged these arguments and accepted CASE's proposals that cash settled transactions should be reported at the entity's best estimate of the expenditure required to settle the liability at the balance sheet date and that equity settled arrangements should be reported on a disclosure only basis.

- 31 The other main issue arising from consultation relates to the FRS 25 requirements for classifying capital instruments as either debt or equity. Respondents commented this was a difficult issue for smaller entities, particularly in terms of preference shares, and one where illustrative guidance in the FRSSE would be welcomed. The FRSSE (effective January 2007) therefore includes working examples that are intended to assist smaller entities in applying the presentation requirements of FRS 25.
- 32 A number of other minor changes have been made to the FRSSE (effective January 2007) to reflect recent changes in company law and to make some presentational changes. The most significant presentational change has been to remove Appendices V to VII, thereby helping to make the FRSSE a more manageable document. The Board acknowledges that smaller entities find the derivation information included in these Appendices helpful and is therefore committed to making it freely available on the FRC website.

#### **The FRSSE (effective April 2008)**

- 33 The amendments made to the FRSSE (effective January 2007) reflect the impact of the Companies Act 2006. The Board decided to issue an updated version of the FRSSE to ensure it continued to accurately reflect company law requirements, as set out in the Companies Act 2006. Updating the FRSSE would also ensure that it retains its usefulness as a "one-stop shop". In issuing this version of the FRSSE (effective April 2008), the Board was advised by its Committee on Accounting for Smaller Entities (CASE).
- 34 In carrying out a review of the FRSSE (effective January 2007) there were two amendments to accounting standards to consider and five new UITF Abstracts. The Board decided that it was not necessary, at this stage, to update the accounting requirements of the FRSSE for these developments.
- 35 The impact of the Companies Act 2006 is not significant in terms of smaller company accounting, although there are some substantive changes. These include increases to the thresholds for companies qualifying as small and increases in the thresholds for reporting political and charitable donations.
- 36 The derivation table available on the FRC website provides a full cross-reference between the Companies Act 2006 and the legislative requirements set out in the FRSSE (effective April 2008). It also retains separate columns showing the equivalent references for the FRSSE (effective January 2007) to the 1985 Companies Act and relevant legislation in Northern Ireland and the Republic of Ireland. The Companies Act 2006 represents United Kingdom legislation, unlike the Companies Act 1985 which only covered Great Britain. For this reason, the FRSSE (effective April 2008) does not require separate derivations for Northern Ireland.
- 37 There have been no changes to the legal requirements in the Republic of Ireland.

## The FRSSE (effective January 2015)

- 38 In November 2012 the FRC<sup>59</sup> amended the FRSSE as a consequence of the significant changes that were made to UK and Republic of Ireland financial reporting standards at this date. In November 2012 the FRC revised extant Financial Reporting Standards, withdrawing its existing financial reporting standards and supplementary literature from 1 January 2015 and replacing them with revised financial reporting requirements, based on International Financial Reporting Standards (for example, the IFRS for SMEs was used as a basis for FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*). The FRSSE (effective April 2008) was amended as a consequence of these changes.
- 39 The consequential amendments to the FRSSE were to update references in the FRSSE (effective April 2008) to accounting standards that were withdrawn or for greater consistency with legislation. In addition, the FRC explained that where an entity applying the FRSSE undertakes a new transaction for which it has no existing accounting policy it should have regard to FRS 102, not as a mandatory document but as a means of establishing current practice. The FRC removed the reference to the accounting standards applicable to consolidated financial statements because the general requirements in the FRSSE for developing accounting policies for transactions or events that are not dealt with in the FRSSE are equally applicable to consolidated financial statements.
- 40 The FRC made two further amendments to the FRSSE:
- (a) it introduced a requirement which is consistent with the EU Directives, that if an entity is unable to make a reliable estimate of the useful life of goodwill or intangible assets, the life shall be presumed not to exceed five years.
  - (b) it clarified that an entity shall assess annually whether there is any indication that an asset should be written down. This will assist entities applying the existing requirement for fixed assets and goodwill to be carried at no more than their recoverable amount.

These amendments relate to applying existing company law requirements.

## Relationship with other FRC documents

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- 41 The FRSSE is designed to provide smaller entities with a single accounting standard that is focused on their particular circumstances. Smaller entities that choose to adopt the FRSSE are exempt from other accounting standards. The FRC accepts that the FRSSE is not comprehensive and that there may be issues of general application on which guidance will be sought. Preparers may come across transactions on which accounting guidance is not provided in the FRSSE. This raises the question of whether, in the absence of guidance within the FRSSE, preparers would be required to follow FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* to the extent that it provides guidance on transactions of relevance to the smaller entity. The FRC's view, formulated after consultation with legal advisers and others, is that users expect financial statements to be prepared using accepted practice. If a practice was clearly established and accepted, it should be followed unless there were good reasons to depart from it. Accordingly, preparers should have regard to FRSS (including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*), not as mandatory documents, but as a means of establishing current practice.

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<sup>59</sup> The Financial Reporting Council (FRC) became the prescribed body for issuing accounting standards on 2 July 2012; the prescribed body was previously the Accounting Standards Board (ASB).

- 42 In relation to earlier versions of the FRSSE, some respondents asked that there should be specific cross-references within the FRSSE to SSAPs, other FRSs and UITF Abstracts (the equivalent cross references would now be to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*). The FRC rejected this suggestion because the inclusion of cross-references would lead to preparers having to consider those other pronouncements in all cases, as well as the FRSSE, thereby lengthening checklists and adding to the burden. Furthermore, it is recognised that as new FRSs are issued (including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*) that amend generally accepted accounting practice as it applies to larger entities, it may not be appropriate for such rules to apply to smaller entities.



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