FINANCIAL REPORTING STANDARD

FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES

(EFFECTIVE JUNE 2002)

ACCOUNTING STANDARDS BOARD

CONTENTS

STATUS OF THE FRSSE

General

The Financial Reporting Standard for Smaller Entities (effective June 2002)—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 and, for the generality of small entities, are the same as those required by other accounting standards or a simplified version of those requirements. The disclosure requirements exclude a number of those stipulated in other accounting standards.

Reporting entities that apply the FRSSE are exempt from complying with other accounting standards (Statements of Standard Accounting Practice and Financial Reporting Standards) and Urgent Issues Task Force (UITF) Abstracts, unless preparing consolidated financial statements, in which case certain other accounting standards apply, as set out in paragraph 16.1.

Financial statements will generally be prepared using accepted practice and, accordingly, for transactions or events not dealt with in the FRSSE, smaller entities should have regard to other accounting standards and UITF Abstracts, not as mandatory documents, but as a means of establishing current practice.

Criteria

When considering the application of accounting standards and UITF Abstracts to smaller entities, the Accounting Standards Board has had, and will continue to have, regard to the following criteria:*

(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.

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* *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.*

(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.

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

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:

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* *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.*

(a) small companies or groups as defined in companies legislation;* or

(b) entities that would also qualify under (a) if they had been incorporated under companies legislation, with the exception of building societies.

Accordingly, the FRSSE does not apply to:

(i) large or medium-sized companies, groups and other entities;

(ii) public companies;

(iii) banks, building societies or insurance companies;

(iv) authorised persons under the Financial Services Act 1986 (in the UK) or the Investment Intermediaries Act 1995 (in the Republic of Ireland); or

(v) members of groups that contain companies falling under (ii)–(iv) above.

Reporting entities that are entitled to adopt the FRSSE but choose not to do so, should apply Statements of Standard Accounting Practice (SSAPs), other Financial Reporting Standards (FRSs) and UITF Abstracts when preparing financial statements intended to give a true and fair view of the financial position and profit or loss of the entity.

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* *The legal definitions of small companies and small groups are set out in Appendix I. 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.*

Statements of Recommended Practice (SORPs) and other equivalent guidance developed or revised after the FRSSE was first issued (in November 1997) 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 FRSSE. Financial statements that purport to comply with existing SORPs that are drafted on the basis that the financial statements comply with the requirements of SSAPs, FRSs (other than the FRSSE) and UITF Abstracts, should also observe those requirements, rather than adopt the FRSSE.

FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES (EFFECTIVE JUNE 2002)

A - OBJECTIVE

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*

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*** and entitled to the exemptions available in the legislation for small companies when filing accounts with the Registrar of Companies;† or

(b) entities that would have come into category (a) above had they been companies incorporated under **companies legislation**, excluding building societies. Such entities should 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.

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* *Terms appearing in* **bold** *in the text are explained in the Definitions set out in Part C.*

† *In the Republic of Ireland, small companies that are also parent undertakings of groups which do not meet, on a consolidated basis, the same legal conditions as are required for small companies, are excluded from the scope of the FRSSE. In the UK this effect is achieved through companies legislation. The legal definition of a small company is set out in Appendix I.*

2 *General*

True and fair view

2.1 The financial statements should present a true and fair view of the results for the period and of the state of affairs at the end of the period. To achieve such a view, regard should be had to the substance of any arrangement or transaction, or series of such, into which the entity has entered. 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**.

2.2 Where there is doubt whether applying provisions of the FRSSE would be sufficient to give a true and fair view, adequate explanation should be given in the notes to the accounts of the transaction or arrangement concerned and the treatment adopted.

Accounting policies

2.3* The financial statements should state that they have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).†

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* *Paragraphs that have significantly changed or been added since the FRSSE (effective March 2000)—the previous version of the FRSSE, which this version supersedes—are sidelined.*

† *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 special provisions relating to small companies within Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002)." If abbreviated accounts are also to be prepared, the statement referring to the Financial Reporting Standard for Smaller Entities (effective June 2002) should be included with the note of accounting policies so that it is reproduced in the abbreviated accounts.*

2.4 **Accounting policies** and **estimation techniques** should be consistent with the requirements of the FRSSE and of **companies legislation** (or other equivalent legislation). Where this permits a choice, an entity should 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.

2.5 **Accounting policies** should 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 should be given to the impact on comparability. Following a change in **accounting policy**, the amounts for the current and corresponding periods should be restated on the basis of the new policies.

2.6 When preparing financial statements, **directors** should 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, should 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 should be stated.

2.7 Financial statements should 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.

Prior period adjustments

2.8 **Prior period adjustments** should 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 should 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 should be disclosed where practicable.

True and fair view override disclosures

2.9 In cases where the true and fair view override* is being invoked this should be stated clearly and unambiguously. To this end the following should be given:

(a) a statement of the treatment that would normally be required in the circumstances and a description of the treatment actually adopted;

(b) a statement explaining why the treatment prescribed would not give a true and fair view; and

(c) a description of how the position shown in the financial statements is different as a result of the departure, normally with quantification, except (i) where quantification is already evident in the financial statements themselves or (ii) whenever the effect cannot be reasonably quantified, in which case the **directors** should explain the circumstances.

2.10 Where a departure continues in subsequent financial statements, the disclosures should be made in all subsequent statements and should include corresponding amounts for the previous period.

* *The true and fair view override is set out in companies legislation. References to the legal requirements are given in Appendix I.*

3 *Profit and loss account*

General

3.1 All gains and losses **recognised** in the financial statements for the period should be included in the profit and loss account or the statement of **total recognised gains and losses**. 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**.

Exceptional items

3.2 All **exceptional items**, other than those included in the items listed in the next paragraph, should 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, should be disclosed separately by way of 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** should be given to enable its nature to be understood.

3.3 The following items, including **provisions** in respect of such items, should 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

3.4 The profit or loss on the disposal of an **asset** should 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 should 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.

Extraordinary items

3.5 Any profit or loss arising from **extraordinary items**, which are extremely rare, should be shown separately on the face of the profit and loss account, after the profit or loss on **ordinary activities** after taxation but before deducting any appropriations such as dividends paid or payable.

The euro

3.6 Costs involved with the introduction of the euro should be written off to the profit and loss account, except where they meet the conditions to be capitalised as a fixed **asset**. Costs may be capitalised (a) where an entity already has an **accounting policy** to capitalise **assets** of the relevant type and (b) to the extent that the expenditure clearly enhances the **asset** beyond that originally assessed, rather than merely maintaining it. If material, the costs written off to the profit and loss account are **exceptional items** and should be disclosed as such.

4 *Statement of total recognised gains and losses*

4.1 A primary statement should 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 should be the gains and losses that are **recognised** in the period insofar as they are attributable to shareholders, excluding transactions with shareholders.* 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.

5 *Fixed assets and goodwill*

Research and development

5.1 The cost of fixed **assets** acquired or constructed in order to provide facilities for **research and development** activities over a number of accounting periods should be capitalised and written off over their useful lives through the profit and loss account.

* *An illustration of a statement of total recognised gains and losses is given in Appendix III.*

5.2 Expenditure on **pure** and **applied research** should be written off in the period of expenditure through the profit and loss account.

5.3 **Development** expenditure should 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.

5.4 In the foregoing circumstances **development** expenditure may be deferred to the extent that its recovery can be reasonably regarded as assured.

5.5 If an **accounting policy** of deferral of **development** expenditure is adopted, it should be applied to all **development** projects that meet the criteria in paragraph 5.3.

5.6 If **development** costs are deferred to future periods, they should be amortised. The amortisation should commence with the commercial production or application of the product, service, process or system and should 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.

5.7 Deferred **development** expenditure for each product should 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, should be written off immediately project by project.

5.8 The amount of deferred **development** expenditure carried forward at the beginning and end of the period should be disclosed under **intangible assets** in the balance sheet or in the notes to the balance sheet.

Other intangible assets and goodwill

5.9 Positive **purchased goodwill** and purchased **intangible assets** should be capitalised. Internally generated **goodwill** and **intangible assets** should not be capitalised.

5.10 An **intangible asset** purchased with a business should be **recognised** separately from the **purchased goodwill** if its value can be measured reliably.

5.11 Capitalised **goodwill** and **intangible assets** should be **depreciated** on a straight-line (or more appropriate) basis over their **useful economic lives**, which should not exceed 20 years.

5.12 The **residual value** assigned to **goodwill** should 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.

5.13 **Useful economic lives** should be reviewed at the end of each reporting period and revised if necessary, subject to the constraint that the revised life should not exceed 20 years from the date of acquisition. The carrying amount at the date of revision should be **depreciated** over the revised estimate of remaining **useful economic life**.

5.14 **Goodwill** and **intangible assets** should not be revalued.

5.15 If an acquisition appears to give rise to negative **goodwill**, **fair values** should 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 should be released in the profit and loss account over the lives of those **assets**. Any additional negative **goodwill** should 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 should be disclosed.

Tangible fixed assets

5.16 Paragraphs 5.17–5.24 apply to all **tangible fixed assets** other than **investment properties**.

5.17 A **tangible fixed asset** should 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 should be its current value, ie the lower of replacement cost and **recoverable amount**, at the date it is received.*

5.18 Costs that are directly attributable to bringing the **tangible fixed asset** into working condition for its intended use should be included in its measurement. Other costs should 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** should be capitalised as part of the cost of those **assets**. The total amount of **finance costs** capitalised during a period should not exceed the total amount of **finance costs** incurred during that period.

5.19 Capitalisation of directly attributable costs, including **finance costs**, should be suspended during extended periods in which active development is interrupted. Capitalisation should 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.

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* *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).*

5.20 Subsequent expenditure should be capitalised only if:

(a) it enhances the economic benefits of a **tangible fixed asset** in excess of the previously assessed standard of performance (ie 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 should be **recognised** in the profit and loss account as it is incurred.

5.21 Where an entity adopts an **accounting policy** of revaluation in respect of a **tangible fixed asset**, its carrying amount should 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 (ie 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 (ie having a similar nature, function or use in the business) should be revalued, but a policy of revaluation need not be applied to all classes of **tangible fixed assets**.

5.22 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 should be performed by an experienced valuer (ie one who has 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 should be updated by an experienced valuer in the intervening years where it is likely that there has been a material change in value.*

5.23 Revaluation losses caused only by changing market prices should 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 should be **recognised** in the profit and loss account.

5.24 Revaluation gains should 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 should 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.

Depreciation

5.25 Paragraphs 5.26–5.31 apply to all **tangible fixed assets** other than **investment properties**.

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* *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 5.22.*

5.26 The cost (or revalued amount) less estimated **residual value** of a **tangible fixed asset** should be depreciated on a systematic basis over its **useful economic life**. The **depreciation** method used should 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 should 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**.

5.27 Where a **tangible fixed asset** comprises two or more major components with substantially different **useful economic lives**, each component should 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.

5.28 The **useful economic lives** and **residual values** of **tangible fixed assets** should 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** should be depreciated over the revised remaining **useful economic life**.

5.29 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.

5.30 The following should 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**.

5.31 Where there has been a change in the **depreciation** method used, the effect, if material, should be disclosed in the period of change. The reason for the change should also be disclosed.

Write-downs to recoverable amount

5.32 Paragraphs 5.33–5.36 apply to capitalised **goodwill** and all fixed **assets** (ie **tangible fixed assets**, **intangible assets** and investments) except **investment properties** and financial instruments (other than investments in subsidiaries, associates and joint ventures).

5.33 Fixed **assets** and **goodwill** should 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 (perhaps as a result of obsolescence or a fall in demand for a product), the net book amount should be written down to the estimated **recoverable amount**, which should then be written off over the remaining **useful economic life** of the **asset**.

5.34 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 should 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.

5.35 If the **recoverable amount** of an **intangible asset** or capitalised **goodwill** subsequently increases, the net book amount should 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.

5.36 Write-downs (and any reversals) to **recoverable amount** should 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 should 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.

Investment properties

5.37 **Investment properties** should not be subject to periodic charges for **depreciation** except for properties held on lease, which should be **depreciated** at least over the period when the unexpired term is 20 years or less.

5.38 **Investment properties** should be included in the balance sheet at their open market value and the carrying value should be displayed prominently either on the face of the balance sheet or in the notes.

5.39 The names of the persons making the valuation, or particulars of their qualifications, should 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 should be disclosed.

5.40 Changes in the market value of **investment properties** should not be taken to the profit and loss account but should 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 should be charged (or credited) in the profit and loss account of the period.

*Government grants**

5.41 Subject to paragraph 5.42, **government grants** should 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 should be treated as deferred income.

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* *Notes on the legal requirements for the Republic of Ireland are included in Appendix I.*

5.42 A **government grant** should 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.

5.43 Potential **liabilities** to repay grants either in whole or in part in specified circumstances should be provided for only to the extent that repayment is probable. The repayment of a **government grant** should be accounted for by setting off the repayment against any unamortised deferred income relating to the grant. Any excess should be charged immediately to the profit and loss account.

5.44 The following information should 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.

6 *Leases*

Hire purchase and leasing

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

Accounting by lessees

6.2 A **finance lease** should 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** should normally be the **fair value** of the **asset**.

6.3 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 should be used. In principle this should 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** should not be shown.

6.4 The total **finance charge** under a **finance lease** should 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.

6.5 The rental under an **operating lease** should 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.

6.6 Incentives to sign a lease, in whatever form they may take, should be spread by the lessee (and indeed the lessor) 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.

6.7 An **asset** leased under a **finance lease** should 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** should be **depreciated** over its useful life.

Accounting by lessors

6.8 The amount due from the lessee under a **finance lease** should 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.

6.9 The total **gross earnings** under **finance leases** should be **recognised** on a systematic and rational basis. This will normally be a constant periodic rate of return on the lessor's **net investment**.

6.10 Rental income from an **operating lease** should 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.

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

Manufacturer/dealer lessor

6.12 A manufacturer or dealer lessor should not **recognise** a selling profit under an **operating lease**. The selling profit under a **finance lease** should 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

6.13 In a sale and leaseback transaction that results in a **finance lease**, any apparent profit or loss (ie the difference between the sale price and the previous carrying value) should be deferred and amortised in the financial statements of the seller/lessee over the shorter of the **lease term** or the useful life of the **asset**.

6.14 If the leaseback is an **operating lease**:

(a) any profit or loss should 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 should be **recognised** immediately, except that if the apparent loss is compensated for by future rentals at below market price it should 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);

(c) if the sale price is above **fair value**, the excess over **fair value** should 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

6.15 A buyer/lessor should account for a sale and leaseback in the same way as other leases are accounted for, ie using the methods set out in paragraphs 6.8–6.12.

Disclosure by lessees

6.16 Disclosure should be made of:

(a) either:

(i) the gross amounts of **assets** that are held under **finance leases** together with the related accumulated **depreciation** by (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 should be disclosed separately.

(b) the amounts of **obligations** related to **finance leases** (net of **finance charges** allocated to future periods). These should 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.

6.17 In respect of **operating leases**, the lessee should 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

6.18 Disclosure should 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**;

(c) the **net investment** in (i) **finance leases** and (ii) **hire purchase contracts** at each balance sheet date.

7 *[Section withdrawn]*

8 *Current assets*

*Stocks and long-term contracts**

8.1 The amount at which stocks are stated in the financial statements should 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 **Long-term contracts** should 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.

8.3 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** should be **recognised** in the profit and loss account as the difference between the reported turnover and related costs for that contract.

8.4 **Long-term contracts** should be disclosed in the balance sheet as follows:

(a) The amount by which recorded turnover is in excess of payments on account should be classified as 'amounts recoverable on contracts' and separately disclosed within debtors.

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* *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.*

(b) The balance of payments on account (in excess of the amounts (i) matched with turnover and (ii) offset against **long-term contract** balances) should 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, should be classified as 'long-term contract balances' and separately disclosed within the balance sheet heading 'stocks'. The balance sheet note should 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) should be included within either 'provisions for liabilities and charges' or 'creditors' as appropriate.

*Consignment stock**

8.5 Where **consignment stock** is in substance an **asset** of the dealer, the stock should be **recognised** as such on the dealer's balance sheet, together with a corresponding **liability** to the manufacturer. Any deposit should 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 should not be included on the dealer's balance sheet until the transfer of title has crystallised. Any deposit should be included under 'other debtors'.

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* *A table illustrating the considerations affecting the treatment of consignment stock is given in Appendix III.*

*Debt factoring**

8.6 Where the entity has transferred to the factor all significant benefits (ie the future cash flows from payment by the debtors) and all significant risks (ie slow payment risk and the risk of bad debts) relating to the debts, and has no **obligation** to repay the factor, the debts should be removed from the entity's balance sheet and no **liability** should be shown in respect of the proceeds received from the factor. A profit or loss should be **recognised**, calculated as the difference between the carrying amount of the debts and the proceeds received.

8.7 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 (eg 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;

(d) the debt factor has no recourse to other debts or **assets**;

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* *Similar arrangements, such as invoice discounting, should 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.*

(e) the entity has no right to reacquire the debts in the future;

(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 should 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, should be shown as deductions therefrom on the face of the balance sheet (a 'linked presentation'). The financial statements should 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 should be **recognised** as it accrues and included in the profit and loss account with other interest charges.

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

Start-up costs

8.9 **Start-up costs** should 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 should be **recognised** as an expense when they are incurred. They should not be carried forward as an **asset**.

9 *Taxation*

General

9.1 **Tax** (**current** and **deferred**) should 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 should also be **recognised** directly in that statement).

9.1A The material components of the (**current** and **deferred**) **tax** charge (or credit) for the period should be disclosed separately.

9.2 Any special circumstances that affect the overall tax charge or credit for the period, or may affect those of future periods, should be disclosed by way of note to the profit and loss account and their individual effects quantified. The effects of a fundamental change in the basis of taxation should 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

9.3 **Deferred tax** should be **recognised** in respect of all **timing differences** that have originated but not reversed by the balance sheet date; however, **deferred tax** should 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**.

9.4 Unrelieved tax losses and other **deferred tax assets** should 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).

9.5 **Deferred tax** should 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** should be reversed.

9.6 **Deferred tax** should not be **recognised** on **permanent differences**.

9.7 **Deferred tax** should 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.

9.8 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 should be discounted. Where discounting is used, the unwinding of the discount should be shown as a component of the tax charge and disclosed separately.

9.9 The **deferred tax** balance and its material components should be disclosed.

9.10 The movement between the opening and closing net **deferred tax** balances, and the material components of this movement, should be disclosed.

9.11 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 should be disclosed.

Tax on dividends

9.12 Outgoing dividends and similar amounts payable should be **recognised** at an amount that includes any **withholding tax** but excludes other taxes, such as attributable **tax credits**.

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

Value added tax (VAT)

9.14 Turnover shown in the profit and loss account should exclude VAT on taxable outputs. Irrecoverable VAT allocable to fixed **assets** and to other items disclosed separately in the financial statements should be included in their cost where practicable and material.

10 *Retirement benefits*

10.1 The cost of a **defined contribution scheme** is equal to the contributions payable to the scheme for the accounting period. The cost should be **recognised** within operating profit in the profit and loss account.

10.2 The following disclosures should be made in respect of a **defined contribution scheme**:

(a) the nature of the scheme (ie defined contribution);

(b) the cost for the period; and

(c) any outstanding or prepaid contributions at the balance sheet date.

10.3 An employer participating in a **defined benefit scheme** should refer to Appendix II 'Accounting for retirement benefits: defined benefit schemes'.

11 *Provisions, contingent liabilities and contingent assets*

11.1 The requirements in paragraphs 11.2–11.7 do not apply to **retirement benefits**, **deferred tax** and leases, which are covered by more specific requirements of the FRSSE.

Provisions

11.2 A **provision** should be **recognised** when, and only when, it is probable (ie 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** should 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** should be the present value of the expenditures expected to be required to settle the **obligation**. Where discounting is used, the unwinding of the discount should be shown as other finance costs adjacent to interest.*

11.3 Where some or all of the expenditure required to settle a **provision** may be reimbursed by another party (eg through an insurance claim), the reimbursement should 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** should be excluded from the measurement of a **provision.**

11.4 **Provisions** should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

11.5 A **provision** should be used only for expenditures for which the **provision** was originally **recognised**.

** 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.*

Contingent liabilities and contingent assets

11.6 **Contingent liabilities** and **contingent assets** should not be **recognised**.

11.7 The following should 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.

12 *Capital instruments*

12.1 **Capital instruments** other than shares should be classified as **liabilities** if they contain an **obligation** to transfer economic benefits (including a contingent **obligation** to transfer economic benefits). Shares and other **capital instruments** that do not contain an **obligation** to transfer economic benefits should be reported within shareholders' funds.

12.2 The **finance costs** of **borrowings** should be allocated to periods over the **term** of the **borrowings** at a constant rate on the carrying amount. All **finance costs** should be charged in the profit and loss account.

12.3 **Borrowings** should be initially stated in the balance sheet at the **fair value** of consideration received. The carrying amount of **borrowings** should 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 should be followed. Where this is not the case it should be charged in the profit and loss account immediately it is incurred.

12.5 Where the entitlement to dividends in respect of shares is calculated by reference to time, the dividends should be accounted for on an accruals basis except in those circumstances (for example, where profits are insufficient to justify a dividend and dividend rights are non-cumulative) where ultimate payment is remote. The amounts accrued in excess of dividends paid or payable should be shown separately in shareholders' funds. All dividends should be reported as appropriations of profit in the profit and loss account.

13 *Foreign currency translation*

Transactions in foreign currencies

13.1 Subject to the provisions of paragraphs 13.3 and 13.5 each **asset**, **liability**, revenue or cost arising from a transaction denominated in a foreign currency should 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 should 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.

13.2 Subject to the special provisions of paragraph 13.5, which relate to the treatment of foreign equity investments financed by foreign currency **borrowings**, no subsequent **translations** should normally be made once non-monetary **assets** have been translated and recorded.

13.3 At each balance sheet date, monetary **assets** and **liabilities** denominated in a foreign currency should 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.

13.4 All exchange gains or losses on settled transactions and unsettled **monetary items** should be reported as part of the profit or loss for the period from **ordinary activities**.

13.5 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 should be taken to reserves and the exchange gains or losses on the foreign currency **borrowings** should 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, should 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 should be applied consistently from period to period.

Incorporating accounts of foreign entities

13.6 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 should normally be used.

13.7 Exchange differences arising from the retranslation of the opening **net investment** in a **foreign entity** at the **closing rate** should be recorded as a movement on reserves.

13.8 The profit and loss account of a **foreign entity** accounted for under the **closing rate/net investment** method should 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** should be recorded as a movement on reserves. The average rate used should be calculated by the method considered most appropriate for the circumstances of the **foreign entity**.

13.9 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 should 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 13.1–13.4.

13.10 The method used for translating the financial statements of each **foreign entity** should be applied consistently from period to period unless its financial and other operational relationships with the investing company change.

13.11 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, should 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 13.5 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*

14.1 Financial statements should be prepared on the basis of conditions existing at the balance sheet date.

14.2 A material **post balance sheet event** requires changes in the amounts to be included in financial statements where:

(a) it is an **adjusting event**; or

(b) it indicates that application of the going concern concept to the whole or a material part of the entity is not appropriate.

14.3 A material **post balance sheet event** should be disclosed where:

(a) it is a **non-adjusting event** of such materiality that its non-disclosure would affect the ability of the users of financial statements to reach a proper understanding of the financial position; or

(b) it is the reversal or maturity after the year-end of a transaction entered into before the year-end, the substance of which was primarily to alter the appearance of the entity's balance sheet.

14.4 In respect of each **post balance sheet event** that is required to be disclosed, the following information should be stated by way of notes in the financial statements:

(a) the nature of the event; and

(b) an estimate of the financial effect, or a statement that it is not practicable to make such an estimate.

14.5 The estimate of the financial effect should be disclosed before taking account of taxation, and the taxation implications should be explained where necessary for a proper understanding of the financial position.

14.6 The date on which the financial statements are approved by the board of **directors** should be disclosed in the financial statements.

15 *Related party disclosures*

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* transactions should be disclosed, including:

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* *The materiality of a related party transaction should be judged in terms of its significance to the reporting entity.*

(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 should be disclosed in the notes to the financial statements.

15.3 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.

15.4 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; or

(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.

15.5 When the reporting entity is controlled by another party, there should 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 should be disclosed. This information should be disclosed irrespective of whether any transactions have taken place between the controlling parties and the reporting entity.

16 *Consolidated financial statements*

16.1 Where the reporting entity is preparing **consolidated financial statements**, it should regard as standard the accounting practices and disclosure requirements set out in FRSs 2, 6, 7 and, as they apply in respect of **consolidated financial statements**, FRSs 5, 9, 10* and 11*. Where the reporting entity is part of a group that prepares publicly available **consolidated financial statements**, it is entitled to the exemptions given in FRS 8 paragraph 3(a)–(c).

* *FRS 10 and, as directed by FRS 10, FRS 11 need be applied only in respect of purchased goodwill arising on consolidation.*

17 *Date from which effective and transitional arrangements*

17.1 The accounting practices set out in the FRSSE (effective June 2002) should be regarded as standard in respect of financial statements relating to accounting periods ending on or after 22 June 2002. Earlier adoption is encouraged.

Transitional arrangements—goodwill

17.2 All **goodwill** that was eliminated against reserves in accordance with an accounting policy permitted until 23 March 1999 may remain eliminated against reserves thereafter.* 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

17.3 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 should 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

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* *The treatment of such amounts on disposal of a business is set out in paragraph 3.4.*

(b) restate the carrying amount of the **tangible fixed assets** to historical cost (less restated accumulated **depreciation**), as a change in **accounting policy**.

17.4 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 should 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 should be treated in accordance with paragraph 5.28 and not as **prior period adjustments**.

18 *Withdrawal of the FRSSE (effective March 2000)*

18.1 The FRSSE (effective June 2002) supersedes the FRSSE (effective March 2000).

C - DEFINITIONS

The following definitions shall apply in the FRSSE and in particular in the Statement of Standard Accounting Practice set out in sections 1–18 of Part B.

Accounting policies:-
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

(i) **recognising**,
(ii) selecting measurement bases for, and
(iii) presenting

assets, **liabilities**, gains, losses and changes to shareholders' funds. Accounting policies do not include **estimation techniques**.

> 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 **asset** or a loss is to be **recognised**; 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.

Actuarial gains and losses:-
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.

Adjusting events:-
Adjusting events are **post balance sheet events** that provide additional evidence of conditions existing at the balance sheet date. They include events that because of statutory or conventional requirements are reflected in financial statements.

Applied research:-
Original or critical investigation undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective.

Arrangement fees:-
The costs that are incurred directly in connection with the issue of a **capital instrument**, ie those costs that would not have been incurred if the specific instrument in question had not been issued.

Assets:-
Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.

Attributable profit (on long-term contracts):-
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.)

Average remaining service life:-
A weighted average of the expected future service of the current members of the **pension scheme** up to their normal retirement dates or expected dates of earlier withdrawal or death in service.

Borrowings:-
Capital instruments that are classified as **liabilities**.

Capital instruments:-
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 **consolidated financial statements** 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.

Close family:-
Close members of the family of an individual are those family members, or members of the same household, who may be expected to influence, or be influenced by, that person in their dealings with the reporting entity.

Closing rate:-
The closing rate is the **exchange rate** 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.

Companies legislation:-
(a) In Great Britain, the Companies Act 1985;

(b) in Northern Ireland, the Companies (Northern Ireland) Order 1986; and

(c) in the Republic of Ireland, the Companies Acts 1963-1990 and the European Communities (Companies: Group Accounts) Regulations 1992.

Consignment stock:-
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.

Consolidated financial statements:-
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.

Contingent asset:-
A possible **asset** 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.

Contingent liability:-
(a) A possible **obligation** 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

(b) an **obligation** at the balance sheet date that arises from past events but is not **recognised** as a **provision** because:

 (i) it is not probable that a transfer of economic benefits will be required to settle the **obligation**; or

 (ii) the amount of the **obligation** cannot be measured with sufficient reliability.

Cost (of stock):-
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.

Current funding level (of a pension scheme):-
A current funding level valuation considers whether the **assets** would have been sufficient at the valuation date to cover **liabilities** arising in respect of pensions in payment, preserved benefits for members whose pensionable service has ceased and accrued benefits for members in pensionable service, based on pensionable service to and pensionable earnings at, the date of valuation including revaluation on the statutory basis or such higher basis as has been promised.

Current service cost:-
The increase in the present value of the **scheme liabilities** expected to arise from employee service in the current period.

Current tax:-
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.

Curtailment:-
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.

Deferred tax:-
Estimated future tax consequences of transactions and events **recognised** in the financial statements of the current and previous periods.

Defined benefit scheme:-
A pension or other **retirement benefit** scheme other than a **defined contribution scheme**. 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.

Defined contribution scheme:-
A pension or other **retirement benefit** 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 **obligation** to pay further contributions if the scheme does not have sufficient **assets** to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation:-
The measure of the cost or revalued amount of the economic benefits of a fixed **asset** that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the **useful economic life** of a fixed **asset** whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the **asset**.

Development:-
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.

Directors:-
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.

Estimation techniques:-
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for **assets**, **liabilities**, gains, losses and changes to shareholders' funds.

Estimation techniques implement the measurement aspects of **accounting policies**. An **accounting policy** 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.

Estimation techniques include, for example:

(a) methods of **depreciation**, 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;

(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.

Ex gratia pension:-
A pension that the employer has no legal, contractual or implied commitment to provide.

Exceptional items:-
Material items that derive from events or transactions that fall within the **ordinary activities** 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.

Exchange rate:-
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.

Extraordinary items:-
Material items possessing a high degree of abnormality that arise from events or transactions that fall outside the **ordinary activities** of the reporting entity and are not expected to recur. They do not include **exceptional items** nor do they include prior period items merely because they relate to a prior period.

Fair value:-
Fair value is the amount at which an **asset** or **liability** 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 **asset**.

Finance charge (on a lease):-
The finance charge is the amount borne by the lessee over the **lease term**, representing the difference between the total of the **minimum lease payments** (including any residual amounts guaranteed by the lessee) and the amount at which the lessee records the leased **asset** at the **inception** of the lease.

Finance costs (of a capital instrument):-
The difference between the net proceeds of a **capital instrument** 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 **arrangement fees**.

Finance lease:-
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 **inception** of a lease the present value of the **minimum lease payments**, including any initial payment, amounts to substantially all (normally 90 per cent or more) of the **fair value** of the leased **asset**. The present value should be calculated by using the interest rate implicit in the lease. If the **fair value** of the **asset** is not determinable an estimate thereof should be used.

Foreign entity:-
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 **assets** and **liabilities** are denominated mainly in a foreign currency.

Foreseeable losses (on a long-term contract):-
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:

(a) whether work has yet commenced on such contracts;

(b) the proportion of work carried out at the accounting date; or

(c) the amount of profits expected to arise on other contracts.

Forward contract:-
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.

Funded scheme:-
A **pension scheme** where the future **liabilities** for benefits are provided for by the accumulation of **assets** held externally to the employing entity's business.

Goodwill:-
Goodwill is the difference between the value of a business as a whole and the aggregate of the **fair values** of its **identifiable assets and liabilities**.

Government:-
Government includes government and inter-governmental agencies and similar bodies whether local, national or international.

Government grants:-
Government grants are assistance by **government** 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.

Gross earnings (from a lease):-
Gross earnings comprise the lessor's gross finance income over the **lease term**, representing the difference between its gross investment in the lease and the cost of the leased **asset** less any grants receivable towards the purchase or use of the **asset**.

Hire purchase contract:-
A hire purchase contract is a contract for the hire of an **asset** that contains a **provision** giving the hirer an option to acquire legal title to the **asset** upon the fulfilment of certain conditions stated in the contract.

Identifiable assets and liabilities:-
Identifiable assets and liabilities are the **assets** and **liabilities** of an entity that are capable of being disposed of or settled separately, without disposing of a business of the entity.

Inception (of a lease):-
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.

Intangible assets:-
Intangible assets are non-financial fixed **assets** that do not have physical substance but are **identifiable** and are controlled by the entity through custody or legal rights.

Interest cost:-
The expected increase during the period in the present value of the **scheme liabilities** because the benefits are one period closer to **settlement**.

Investment property:-
An investment property is an interest in land and/or buildings:

(a) in respect of which construction work and development have been completed; and

(b) which is held for its investment potential, any rental income being negotiated at arm's length,

but excluding:

(c) a property that is owned and occupied by a company for its own purposes; and

(d) a property let to and occupied by another group company.

Lease term:-
The lease term is the period for which the lessee has contracted to lease the **asset** and any further terms for which the lessee has the option to continue to lease the **asset** with or without further payment, which option it is reasonably certain at the **inception** of the lease that the lessee will exercise.

Liabilities:-
An entity's **obligations** to transfer economic benefits as a result of past transactions or events.

Local currency:-
An entity's local currency is the currency of the primary economic environment in which it operates and generates net cash flows.

Long-term contract:-
A contract entered into for the design, manufacture or construction of a single substantial **asset** or the provision of a service (or of a combination of **assets** 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 **attributable profit** 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.

Minimum lease payments:-
The minimum lease payments are the minimum payments over the remaining part of the **lease term** (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.

Monetary items:-
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.

Net investment (in a foreign entity):-
The net investment that a company has in a **foreign entity** is its effective equity stake and comprises its proportion of such **foreign entity's** net **assets**; in appropriate circumstances, intragroup loans and other deferred balances may be regarded as part of the effective equity stake.

Net investment (in a lease):-
The net investment in a lease at a point in time comprises:

(a) the gross investment in a lease (ie the total of the **minimum lease payments** and that portion of the **residual value** of the **leased asset**, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor); less

(b) **gross earnings** allocated to future periods.

Net realisable value (of fixed assets):-
Net realisable value of a fixed **asset** is the amount at which the **asset** could be disposed of, less any direct selling costs.

Net realisable value (of stocks and long-term contracts):-
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.

Non-adjusting events:-
Non-adjusting events are **post balance sheet events** that concern conditions that did not exist at the balance sheet date.

Obligation:-
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.

Operating lease:-
An operating lease is a lease other than a **finance lease**.

Ordinary activities:-
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.

Past service cost:-
The increase in the present value of the **scheme liabilities** related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, **retirement benefits**.

Pension schemes:-
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.

Permanent differences:-
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.

Post balance sheet events:-
Post balance sheet events are those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the board of **directors**.

Prior period adjustments:-
Material adjustments applicable to prior periods arising from changes in **accounting policies** or from the correction of fundamental errors. They do not include normal recurring adjustments or corrections of accounting estimates made in prior periods.

Projected unit method:-
An accrued benefits valuation method in which the **scheme liabilities** make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the **scheme liabilities** at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (ie 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

(b) the accrued benefits for members in service on the valuation date.

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.

Provision:-
A **liability** of uncertain timing or amount.

Purchased goodwill:-
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 **fair values** recorded for the **identifiable assets and liabilities** acquired. Positive **goodwill** arises when the acquisition cost exceeds the aggregate **fair values** of the **identifiable assets and liabilities**. Negative **goodwill** arises when the aggregate **fair values** of the **identifiable assets and liabilities** of the entity exceed the acquisition cost.

Pure (or basic) research:-
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.

Recognised:-
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.

Recoverable amount:-
Recoverable amount of an **asset** is the higher of the amounts that can be obtained from selling the **asset** (ie **net realisable value**) or continuing to use the **asset** in the business (ie value in use). Value in use is calculated as the present value of the future cash flows* obtainable as a result of the **asset's** continued use (including those resulting from its ultimate disposal), or a reasonable estimate thereof.

Regular (pension) cost:-
The consistent ongoing cost **recognised** under the actuarial method used.

Related parties:-

Two or more parties are related parties when at any time during the financial period:

(a) one party has direct or indirect control of the other party; or

* *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.*

(b) the parties are subject to common control from the same source; or

(c) one party has significant influence over the financial and operating policies of the other party. Significant influence would occur if that other party is inhibited from pursuing its own separate interests.

For the avoidance of doubt, related parties of the reporting entity include the following:

(i) parent undertakings, subsidiary and fellow subsidiary undertakings;

(ii) associates and joint ventures;

(iii) investors with significant influence and their **close families**; and

(iv) **directors** of the reporting entity and of its parent undertakings and their **close families**.

Research and development expenditure:-
Research and development expenditure means expenditure falling into one or more of the broad categories of **pure (or basic) research**, **applied research** and **development** (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).

Residual value:-
Residual value is the realisable value of the **asset** at the end of its **useful economic life**, based on prices prevailing at the date of acquisition or revaluation, where this has taken place. Realisation costs should be deducted in arriving at the residual value.

Retirement benefits:-
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.

Scheme liabilities:-
The **liabilities** of a **defined benefit scheme** for outgoings due after the valuation date. Scheme liabilities measured using the **projected unit method** reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement:-
An irrevocable action that relieves the employer (or the **defined benefit scheme**) of the primary responsibility for a pension **obligation** and eliminates significant risks relating to the **obligation** and the **assets** used to effect the settlement.

Start-up costs:-
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.

Tangible fixed assets:-
Assets 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.

Tax credit:-
The tax credit given under UK legislation to the recipient of a dividend from a UK company.

Term (of a capital instrument):-
The period from the date of issue of the **capital instrument** 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.

Timing differences:-
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 **recognised** in financial statements. For example, a timing difference would arise when tax allowances for the cost of a fixed **asset** are accelerated or decelerated, ie received before or after the **depreciation** of the fixed **asset** is **recognised** in the profit and loss account.

Total recognised gains and losses:-
The total of all gains and losses of the reporting entity that are **recognised** in a period and are attributable to the shareholders.

Translation:-
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.

Useful economic life:-
The useful economic life of an **asset** is the period over which the present owner will derive economic benefits from its use.

Withholding tax:-
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**

1 Reporting entities are encouraged, but not required, to provide a cash flow statement using the indirect method as explained below.†

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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* *The Board's reasoning for including a voluntary recommendation for cash flow information is set out in Appendix IV.*

† *An illustrative example of a cash flow statement using the indirect method is given in Appendix III.*

ADOPTION OF THE FRSSE (EFFECTIVE JUNE 2002) BY THE BOARD

Financial Reporting Standard for Smaller Entities (effective June 2002) was approved for issue by the nine members of the Accounting Standards Board.

Mary Keegan	(Chairman)
Allan Cook CBE	(Technical Director)
David Allvey	
John Coombe	
Douglas Flint	
Huw Jones	
Roger Marshall	
Isobel Sharp	
Ken Wild	

APPENDIX I

NOTE ON LEGAL REQUIREMENTS

Great Britain

Companies Act 1985, sections 247–249

1 The definition of a small company is contained in sections 247 and 247A of the Companies Act 1985. The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

Turnover	£2,800,000
Balance sheet total	£1,400,000
Average number of employees	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.

2 Certain companies are excluded by section 247A 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 banking or insurance company;

(c) a body corporate that (not being a company) has the power to offer its shares or debentures to the public and may lawfully exercise that power;

(d) an authorised institution under the Banking Act 1987;

(e) an insurance company to which Part II of the Insurance Companies Act 1982 applies; or

(f) an authorised person under the Financial Services Act 1986.

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 sections 248 and 249. The qualifying conditions are met by a group in a year in which it does not exceed two or more of the following criteria:

Aggregate turnover
£2,800,000 net (or £3,360,000 gross)

Aggregate balance sheet total
£1,400,000 net (or £1,680,000 gross)

Aggregate number of employees 50

'Net' means after the set-offs and other adjustments required by Schedule 4A 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.

Companies Act 1985, Schedule 8, paragraphs 10-14

5 Schedule 8 sets out the accounting principles in the following terms:

"10. The company shall be presumed to be carrying on business as a going concern.

11. Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.

12. The amount of any item shall be determined on a prudent basis, and in particular—

(a) only profits realised at the balance sheet date shall be included in the profit and loss account; and

(b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of section 233 of this Act.

13. All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

14. In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately."

Northern Ireland

6 The statutory requirements in Northern Ireland are very similar to those in Great Britain. The following table shows the references to the Companies (Northern Ireland) Order 1986 that correspond to the references in paragraphs 1–5 above.

GREAT BRITAIN	NORTHERN IRELAND
Sections 247–249	Articles 255–257
Schedule 8, paragraphs 10–14	Schedule 8, paragraphs 10–14

Republic of Ireland

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

GREAT BRITAIN	REPUBLIC OF IRELAND
Sections 247 and 247A	Companies (Amendment) Act 1986, sections 2, 8 and 9
Sections 248 and 249	*
Schedule 8, paragraphs 10 –14	Companies (Amendment) Act 1986, section 5

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* *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 conditions for a small company in section 8 of the Companies (Amendment) Act 1986. In addition, a parent company registered in the Republic of Ireland that qualifies as a small company is entitled to adopt the FRSSE only if the group headed by it is also small.*

Status of the FRSSE

8 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.

9 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* 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† 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.

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* *Financial Reporting Review Panel*

† *Generally accepted accounting practice*

(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."

True and fair view override - legal requirements

10 The relevant references in companies legislation to the true and fair override are given below.

Great Britain—Companies Act 1985: sections 226(5) and 227(6), and Schedule 8 paragraph 15.

Northern Ireland—Companies (Northern Ireland) Order 1986: articles 234(5) and 235(6), and Schedule 8 paragraph 15.

Republic of Ireland—Companies (Amendment) Act 1986: sections 3(1)(d)-(e) and 6.

Government grants – legal requirements in the Republic of Ireland

11 References below are to the Companies (Amendment) Act 1986 and the Schedule to that Act unless otherwise stated.

12 Note 8 to the balance sheet formats in the Schedule provides that government grants included in the item 'Accruals and deferred income' must be shown separately in a note to the accounts if not shown separately in the balance sheet. However, Note 8 does not impose an obligation to include government grants under 'Accruals and deferred income' and such grants may, therefore, be placed under a separate heading. This separate heading is often placed between liabilities and share capital/reserves. If a new heading is adopted (using section 4(12)), the requirement under Note 8 to have a separate mention of the amount is not applicable.

13 Paragraph 36(2) of the Schedule provides that "The following information shall be given with respect to any other contingent liability not provided for—

(a) the amount or estimated amount of that liability,

(b) its legal nature, and

(c) whether any valuable security has been provided by the company in connection with that liability and, if so, what."

14 Section 40 of the Companies (Amendment) Act 1983 requires the convening of an extraordinary general meeting not later than 28 days from the earliest day on which it is known to a director of the company that its net assets have fallen to half or less of the company's called-up share capital (that a 'financial situation' exists). The Act also extends the reporting duties of auditors by requiring auditors to state whether in their opinion there existed at the balance sheet date a 'financial situation' in the context of section 40 that would require the convening of an extraordinary general meeting. For the purpose of calculating the net assets of the company, the term 'liability' should be taken to include not only creditors, but also provisions for liabilities and charges, accruals and deferred income. Government grants treated as deferred income should, therefore, be regarded as a liability for the purposes of calculating net assets under section 40.

APPENDIX II

ACCOUNTING FOR RETIREMENT BENEFITS: DEFINED BENEFIT SCHEMES

1 The following requirements should be regarded as standard in respect of financial statements relating to accounting periods ending *before* 22 June 2004 (unless the requirements in paragraph 2 below are adopted early):

(a) The accounting objective is that the employer should **recognise** the expected cost of providing pensions and other post-retirement benefits on a systematic and rational basis over the period during which it derives benefit from the employees' services.

(b) The pension cost should be calculated using actuarial valuation methods. The actuarial assumptions and method, taken as a whole, should be compatible and should lead to the actuary's best estimate of the cost of providing the pension benefits promised. The method of providing for expected pension costs over the service lives of employees in the scheme should be such that the **regular pension cost** is a substantially level percentage of the current and expected future pensionable payroll in the light of the current actuarial assumptions.

(c) Variations from **regular cost** should be allocated over the expected remaining service lives of current employees in the scheme. A period representing the **average remaining service lives** may be used if desired.

(d) Where **ex gratia pensions** are granted the capital cost, to the extent not covered by a surplus, should be **recognised** in the profit and loss account in the accounting period in which they are granted.

(e) Where allowance for discretionary or ex gratia increases in pensions is not made in the actuarial assumptions, the capital cost of such increases should, to the extent not covered by a surplus, be **recognised** in the profit and loss account in the accounting period in which they are initially granted.

(f) If the cumulative pension cost recognised in the profit and loss account has not been completely discharged by payment of contributions or directly paid pensions, the excess should be shown as a net pension **provision**. Similarly, any excess of contributions paid or directly paid pensions over the cumulative pension cost should be shown as a prepayment.

(g) A subsidiary company that is a member of a group scheme should disclose this fact in its financial statements and disclose the nature of the group scheme indicating, where appropriate, that the contributions are based on pension costs across the group as a whole. Such a company is exempt from disclosure requirements (vi) and (vii) in paragraph (h) below, and should instead state the name of the holding company in whose financial statements particulars of the actuarial valuation of the group scheme are contained. This exemption applies only if the holding company is registered in the UK or the Republic of Ireland.

(h) The following disclosures* should be made in respect of a **defined benefit scheme**:

(i) the nature of the scheme (ie defined benefit);
(ii) whether it is **funded** or unfunded;
(iii) whether the pension cost and **provision** (or **asset**) are assessed in accordance with the advice of a professionally qualified actuary and, if so, the date of the most recent formal actuarial valuation or later formal review used for this purpose;
(iv) the pension cost charge for the period;
(v) any **provisions** or prepayments in the balance sheet resulting from a difference between the amounts **recognised** as cost and the amounts **funded** or paid directly;
(vi) the amount of any deficiency on a **current funding level** basis, indicating the action, if any, being taken to deal with it in the current and future accounting periods;
(vii) an outline of the results of the most recent formal actuarial valuation or later formal review of the scheme on an ongoing basis;
(viii) any commitment to make additional payments over a limited number of years;
(ix) details of the expected effects on future costs of any material changes in the group's and/or company's pension arrangements;
(x) the **fair value** of the scheme **assets**, the present value of the **scheme liabilities** and the resulting surplus or deficit, determined in accordance with the requirements in paragraph 2 below (without comparatives for the previous period†); and

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* *An illustration of disclosures for a defined benefit scheme is given in Appendix III.*

† *Note, however, that comparatives are required for accounting periods ending on or after 22 June 2003 (see (i) below).*

(xi) where the **asset** or **liability** that would be **recognised** in the balance sheet under the requirements in paragraph 2 differs from the surplus or deficit in the scheme, an explanation of the difference should be given (without comparative disclosure for the previous period*).

(i) In addition, for accounting periods ending on or after 22 June 2003:

(i) Comparatives for the previous period should be given in respect of requirements (h)(x) and (h)(xi) above.

(ii) An analysis of the movements during the period in the surplus or deficit in the scheme should be given (without comparatives for the previous period).

2 The following requirements should be regarded as standard in respect of financial statements relating to accounting periods ending *on or after* 22 June 2004, although earlier adoption is encouraged:

(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.

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* *Note, however, that comparatives are required for accounting periods ending on or after 22 June 2003 (see (i) below).*

(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 Great Britain* by the Companies Act 1985, Schedule 8, 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 Great Britain by the Companies Act 1985, Schedule 8, 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:

(i) the **current service cost** should be included within operating profit in the profit and loss account;

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* *The equivalent statutory provisions for Northern Ireland are in the Companies (Northern Ireland) Order 1986, Schedule 8; and for the Republic of Ireland are in the Companies (Amendment) Act 1986, the Schedule.*

(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 be **recognised** only 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 (ie **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

The following is for general guidance and does not form part of the Financial Reporting Standard. The best form of the disclosure will depend on individual circumstances.

Example: Statement of total recognised gains and losses

	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	20,000
Prior year adjustment (as explained in note x)	(10,000)	
Total gains and losses recognised since last annual report	20,000	

Example: Disclosure - defined contribution pension scheme

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**

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. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. 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 2000. 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 8 per cent per year, that salary increases would average 6 per cent per year and that present and future pensions would increase at the rate of 3 per cent per year.

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* *This example does not take into account the guidance added to the FRSSE to reflect FRS 17 (ie paragraphs 1(h)(x), 1(h)(xi), 1(i) and paragraph 2 of Appendix II). A revised example disclosure will be added to the FRSSE when these requirements become mandatory in full (years ending on or after 22 June 2004).*

The pension charge for the year was £50,000 (2001 £48,000). This included £5,200 (2001 £5,000) in respect of the amortisation of experience surpluses that are being recognised over ten years, the average remaining service lives of employees.

The most recent actuarial valuation showed that the market value of the scheme's assets was £1,200,000 and that the actuarial value of those assets represented 104 per cent of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 10 per cent and 5 per cent of earnings respectively.

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 (eg 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;

(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 (eg single or double shift) prevailing during the year;

(b) the budgeted level of activity for the year under review and for the ensuing year;

(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. Insofar 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 (eg 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 (eg 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;

(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 (eg 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;

(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 (ie 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 (eg because delivery or customer acceptance has taken place). The FRSSE does not provide a definition of turnover in view of the different methods of ascertaining it as outlined above.

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

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 8.5 of the FRSSE, the following table is provided.

Indications that the stock is not an asset of the dealer at delivery	**Indications that the stock is an asset of the dealer at delivery**
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 an 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.
The manufacturer bears obsolescence risk, eg: – obsolete stock is returned to the manufacturer without penalty *or* – financial incentives given by the manufacturer to prevent stock being returned to it (eg on model change or if it becomes obsolete).	The dealer bears obsolescence risk, eg: – penalty charged if the dealer returns stock to the manufacturer *or* – obsolete stock cannot be returned to the manufacturer and no compensation is paid by the manufacturer for losses due to obsolescence.
Stock transfer price charged by the manufacturer is based on the manufacturer's list price at date of transfer of legal title.	Stock transfer price charged by the manufacturer is based on the manufacturer's list price at date of delivery.
The manufacturer bears slow movement risk, eg: – transfer price set independently of time for which the dealer holds stock, and there is no deposit.	The dealer bears slow movement risk, eg: – the dealer is effectively charged interest as transfer price or other payments to the manufacturer vary with time for which dealer holds stock *or* – the dealer makes a substantial interest-free deposit that varies with the levels of stock held.

Practical considerations – Debt factoring

To assist in using paragraphs 8.6–8.8 of the FRSSE, the following table is provided.

Indications that derecognition is appropriate (debts are not an asset of the seller)	**Indications that a linked presentation is appropriate**	**Indications that a separate presentation is appropriate (debts are an asset of the seller)**
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, eg: - by adjustment to consideration for original transfer *or* - subsequent transfers priced to recover costs of earlier transfers.
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.
The factor is paid all amounts received from the factored debts (and no more). The seller has no rights to further sums from the factor.	The factor is paid only out of amounts collected from the factored debts, and the seller has no right or obligation to repurchase debts.	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.

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 overleaf, 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 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	
		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	
		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)	
		(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)
		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.

Example: Discounting when making a provision

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 5 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 x 5%)	3,918
year 2	((78,353 + 3,918) x 5%)	4,113
year 3	etc	4,319
year 4	etc	4,535
year 5	etc	4,762
		21,647
Add amount originally recorded		78,353
Total provision at end of year 5		100,000

APPENDIX IV

THE DEVELOPMENT OF THE FRSSE

History

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	'Accounting for government grants'
SSAP 9	'Stocks and long-term contracts'
SSAP 13	'Accounting for research and development'
SSAP 17	'Accounting for post balance sheet events'
SSAP 18	'Accounting for contingencies'
UITF Abstract 7	'True and fair view override disclosures'.

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

8 The FRSSE is linked with accounts drawn up in Great Britain under Schedule 8 to the Companies Act 1985* for the following reasons:

(a) it allows the establishment of a clearly distinguishable regime, ie 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

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

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** The equivalent legislation in Northern Ireland is Schedule 8 to the Companies (Northern Ireland) Order 1986 and in the Republic of Ireland is sections 10-12 of the Companies (Amendment) Act 1986.*

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. 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 2.2).

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 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

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:

- 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

- removing the exception that allows recognition of internally developed intangible assets with market values and revaluation of any intangible asset with a market value

- 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 amendments made to the previous FRSSE in producing this document are largely based on those proposed in the Exposure Draft 'Amendment to FRSSE 2001', which was published in June 2001. In developing the revision, the Board was advised by its specialist Committee on Accounting for Smaller Entities.

23 The majority of respondents agreed with the proposal in the Exposure Draft that material relating to defined benefit schemes should be included in an appendix to the FRSSE; however, a number were concerned that small companies would not have adequate time to prepare the information necessary to comply with these requirements. The Board has taken this point and delayed implementation by one year. Small companies will now have a similar length of time to prepare as larger companies had when FRS 17 was issued.

24 A number of respondents commented that the four criteria against which the appropriateness of accounting policies is judged (as required in FRS 18) should be reflected in the FRSSE. A majority also stated a preference for the definitions of 'accounting policies' and 'estimation techniques' included in FRS 18, over those proposed in the Exposure Draft. Both of these concerns have also been addressed in this version of the FRSSE.

25 Respondents were generally content with the approach adopted in relation to current and deferred tax (FRSs 16 and 19, respectively). However, some did comment that the FRSSE should include guidance covering the deferred tax implications of non-depreciated assets and of 'marking to market'.* The Board did not believe that the benefits would justify including guidance on these specific situations in the FRSSE.

26 Other commentators suggested that the FRSSE should reflect the guidance provided by UITF Abstracts 17 (revised 2000), 26, 29 and 30. These Abstracts address the treatment of share option schemes (17 and 30), barter transactions for advertising (26) and Website development costs (29). The Board intends to conduct further research into the relevance of such specific guidance for the FRSSE.

Relationship with other ASB documents

27 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 and UITF Abstracts (with certain exceptions for those small groups preparing consolidated financial statements). The Board 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.

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* *ie continually revaluing an asset to fair value with changes in fair value being recognised in the profit and loss account.*

This raises the question of whether, in the absence of guidance within the FRSSE, preparers and auditors would be required to follow all SSAPs, other FRSs and UITF Abstracts to the extent that they provide guidance on transactions of relevance to the smaller entity. The Board'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 and auditors should have regard to SSAPS, FRSs and UITF Abstracts, not as mandatory documents, but as a means of establishing current practice.

28 Some respondents asked that there should be specific cross-references within the FRSSE to SSAPs, other FRSs and UITF Abstracts. The Board rejected this suggestion because the inclusion of cross-references would lead to preparers and auditors 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 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. An example that has been frequently cited, but on which the Board has not established a firm position, is that some of the likely proposals on marking to market fixed interest instruments, while appropriate for larger entities, would not be appropriate for smaller entities. Because generally accepted accounting practice had not been established for all in this area then there would not be an expectation that smaller entities should have regard to such a new rule.

Future review of the FRSSE as a whole

29 The issue of the FRSSE in November 1997 introduced a new concept into financial reporting—that of a complete, distinct accounting standard specifically for smaller entities. In the course of the FRSSE's development conflicting views were put forward, ranging from those who believed smaller entities should be exempt from all accounting standards to those who favoured retaining virtually the status quo.

30 Given this divergence of views and the innovative concept behind the FRSSE, it is important that the ability of the FRSSE to respond to perceived needs is carefully monitored. The Board has previously stated its intention to review how the FRSSE, as a whole, is working in practice after two full years of effective operation and to propose amendments as necessary. With this in mind, the Board published a Discussion Paper, 'Review of the Financial Reporting Standard for Smaller Entities (FRSSE)' in February 2001. It sought views on the most significant issues affecting the future role of the FRSSE. The responses to the Paper have now been received and analysed and a number of possible developments are being considered.

APPENDIX V

DERIVATION TABLES

The following tables are intended to assist readers of the FRSSE in understanding the sources used in its compilation and the changes it makes to the body of accounting standards. They analyse each paragraph of the FRSSE and explain the source, and whether that source has been adopted (a) in its entirety, (b) with minor amendments, or (c) with major changes. Major changes are deemed to be those where either a disclosure requirement has been lifted, or measurement has been simplified.

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Objective	ASB's Statement of Principles, Chapter 1		✔ (comment on different balance in financial statements being used for making economic decisions and for assessing stewardship of resources)	
1.1				New paragraph: the scope of the FRSSE

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
2.1	FRS 5 (14, 16)			✔ (in addition the paragraph refers to the true and fair view and the substance of transactions)
2.2				New paragraph: adequate explanation is needed for a true and fair view
2.3				New paragraph: requirement to state in the accounts whether they have been prepared in accordance with the FRSSE
2.4	FRS 18 (14, 17, 30)		✔ (no reference to accounting standards, UITF Abstracts or true and fair view)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
2.5	FRS 3 (62) FRS 18 (45)		✔ (the discussion and disclosure requirements of FRS 3 (62) are omitted)	
2.6	FRS 18 (23, 61(a) and (b))	✔		
2.7	FRS 18 (55(a), (c) and (d))	✔		
2.8	FRS 3 (29)	✔		
2.9	FRS 18 (62)			✔ (no reference to departures from the requirements of the FRSSE – this situation is addressed by paragraph 2.2)
2.10	FRS 18 (63)		✔ (no reference to departures that affect only corresponding amounts)	
3.1	FRS 3 (13)		✔ (no reference to other accounting standards)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
3.2	FRS 3 (19)			✔ (no reference to continuing or discontinued operations)
3.3	FRS 3 (20)			✔ (no reference to continuing or discontinued operations, and no explanatory text; the term operating profit is described as in FRS 3 (14))
3.4	FRS 3 (21) FRS 10 (71(c)(i))	✔		
3.5	FRS 3 (22)		✔ (detail is omitted, additional emphasis of the rarity of extraordinary items)	
3.6	UITF Abstract 21 (17, 18)			✔ (excludes specific disclosure requirements (also in companies legislation) and voluntary disclosures)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
4.1	FRS 3 (27)			✔ (if there are no gains or losses other than those in the profit and loss account no statement is required)
5.1	SSAP 13 (23)	✔		
5.2	SSAP 13 (24)		✔ (does not stress that fixed assets for pure and applied research may be capitalised)	
5.3	SSAP 13 (25)	✔		
5.4	SSAP 13 (26)	✔		
5.5	SSAP 13 (27)	✔		
5.6	SSAP 13 (28)	✔		
5.7	SSAP 13 (29)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.8	SSAP 13 (32)			✔ (no requirement to disclose movements on deferred development expenditure; disclosure may be given by way of note)
5.9	FRS 10 (7–9, 14)			✔ (no exception allowing recognition of internally generated intangible assets with readily ascertainable market values)
5.10	FRS 10 (10, 13)		✔ (no reference to need to restrict fair values of intangible assets to amounts that do not create or increase negative goodwill)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.11	FRS 10 (15, 30)		✔ (no reference to amortisation method reflecting pattern of depletion of goodwill; rather, simply requires a straight-line method unless another is more appropriate)	✔ (useful economic lives limited to 20 years)
5.12	FRS 10 (28)		✔ (example added to illustrate circumstances in which a residual value can be regarded as reliable)	
5.13	FRS 10 (33)		✔ (consistent with paragraph 5.11, prevents lives from being revised to periods longer than 20 years)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.14	FRS 10 (45)			✔ (omits exception allowing revaluation of intangible assets with readily ascertainable market values)
5.15	FRS 10 (48–50, 63)			✔ (no requirement to show negative goodwill immediately below positive goodwill on the face of the balance sheet)
5.16	FRS 15 (4)	✔		
5.17	FRS 15 (6, 17, 32)	✔		
5.18	FRS 15 (7, 19)	✔		
5.19	FRS 15 (12, 27, 29)		✔ (no reference to construction of a tangible fixed asset being completed in parts)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.20	FRS 15 (34, 36)		✔ (no reference to major inspections or overhauls)	
5.21	FRS 15 (42, 43, 59, 61)		✔ (no reference to cases where impossible to obtain a reliable valuation)	✔ (where revalued, tangible fixed assets to be carried at market value or the best estimate thereof, unless judged inappropriate by the directors in which case current value may be used)
5.22	FRS 15 (50)			✔ (valuations may be performed by an experienced valuer, whereas FRS 15 refers to a qualified valuer)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.23	FRS 15 (65)			✔ (revaluation losses taken to profit and loss account, irrespective of recoverable amount, except falls in market value where carrying amount exceeds depreciated historical cost)
5.24	FRS 15 (63, 64)	✔		
5.25	FRS 15 (4)	✔		
5.26	FRS 15 (77)	✔		
5.27	FRS 15 (83, 84)		✔ (only life of land included from paragraph 84)	
5.28	FRS 15 (93, 95)		✔ (references to impairment and basis on which residual values are priced are omitted)	✔ (residual values and useful economic lives for tangible fixed assets to be reviewed regularly and revised when necessary)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.29	FRS 15 (82)	✔		
5.30	FRS 15 (100)		✔ (disclosure of depreciation to be given for (1) land and buildings and (2) other tangible fixed assets in aggregate)	✔ (excludes specific disclosure requirements also in companies legislation)
5.31	FRS 15 (102)	✔		
5.32	FRS 11 (5)		✔ (no reference to own shares held by an ESOP and unproved oil reserves being excluded from the scope of the impairment requirements)	
5.33	FRS 11 (14, 21) FRS 10 (44)		✔ (no reference to the need to review the useful economic life and residual value of the asset when it is impaired)	
5.34	FRS 11 (56)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.35	FRS 11 (60)		✔ (no reference to the reversal of an impairment loss on an intangible asset with a readily ascertainable market value)	
5.36	FRS 11 (14, 56, 63)		✔ (slightly simplified treatment of revalued assets)	
5.37	SSAP 19 (10)	✔		
5.38	SSAP 19 (11, 15)			✔ (no requirement to disclose the carrying value of the investment revaluation reserve; disclosure may be given by way of note)
5.39	SSAP 19 (12)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
5.40	SSAP 19 (13)		✔ (no reference to investment companies or property unit trusts, insurance companies or pension funds)	
5.41	SSAP 4 (23, 25)		✔ (the discussion in paragraph 23 is not included)	
5.42	SSAP 4 (24)	✔		
5.43	SSAP 4 (27)	✔		
5.44	SSAP 4 (28)		✔ (no reference to disclosure of accounting policy)	
6.1	SSAP 21 (31)	✔		
6.2	SSAP 21 (32, 33)			✔ (asset and liability to be stated at fair value, rather than the present value of the minimum lease payments, unless fair value is not a realistic estimate)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
6.3	SSAP 21 (32, 34)			✔ (where grants are received there is no stipulation that the amount to be capitalised should be restricted to the minimum lease payments)
6.4	SSAP 21 (35)		✔ (additional emphasis that the straight-line method may be a reasonable approximation)	
6.5	SSAP 21(37)	✔		
6.6	UITF Abstract 28 (14, 15)		✔ (no reference to spreading incentives on a basis other than straight-line)	
6.7	SSAP 21 (36)	✔		
6.8	SSAP 21 (38)	✔		
6.9	SSAP 21 (39)			✔ (gross earnings under finance leases should be recognised on a systematic and rational basis)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
6.10	SSAP 21 (43)		✔ (no reference to charges for services)	
6.11	SSAP 21 (42)	✔		
6.12	SSAP 21 (45)	✔		
6.13	SSAP 21 (46)	✔		
6.14	SSAP 21 (47)	✔		
6.15	SSAP 21(48)			✔ (accounting for sale and leasebacks by the buyer/ lessor follows the amended treatment for lessors as set out above)
6.16	SSAP 21 (49, 50, 51, 54)		✔ (no requirement to show for finance leased assets, total depreciation for the period by class of asset; disclosure of assets under finance leases required for (1) land and buildings and (2) other assets in aggregate)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
6.17	SSAP 21 (56)			✔ (no analysis by type of lease is required)
6.18	SSAP 21 (58, 59, 60)		✔ (no reference to disclosure of accounting policy, or of aggregate rentals receivable)	
8.1	SSAP 9 (26)	✔		
8.2	SSAP 9 (28)	✔		
8.3	SSAP 9 (29)	✔		
8.4	SSAP 9 (30)	✔		
8.5	FRS 5 (A11, A12)			✔ (omits disclosure requirements)
8.6	FRS 5 (C4, C5, C18)		✔ (summarises part of Application Note C relating to derecognition, but with no discussion)	

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
8.7	FRS 5 (27, C15, C19)		✔ (summarises part of Application Note C relating to linked presentation, but with no discussion, and adapts FRS 5 (27))	
8.8	FRS 5 (C4, C20)		✔ (summarises part of Application Note C relating to separate presentation, but with no discussion)	
8.9 9.1	UITF Abstract 24 (9)	✔		
	FRS 16 (5, 6) FRS 19 (34, 35)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
9.1A	FRS 16 (17) FRS 19 (60)			✔ (detailed disclosure requirements are omitted and replaced with a broad requirement to disclose the material components of the current and deferred tax charges (or credits))
9.2	FRS 3 (23)			✔ (no specific requirement to disclose special circumstances affecting tax on exceptional items)
9.3	FRS 19 (7(a), 14,15)	✔		
9.4	FRS 19 (23)	✔		
9.5	FRS 19 (9)	✔		
9.6	FRS 19 (7(b))	✔		
9.7	FRS 19 (37)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
9.8	FRS 19 (42, 44, 60(a)(ii))		✔ (FRS 19 states that discounting is "permitted but not required", whereas the FRSSE simply states that it is "not required")	
9.9	FRS 19 (61(a))		✔ (requirement to disclose the "material components" of the balance replaces the FRS 19 requirement to "show the amount recognised for each significant type of timing difference")	
9.10	FRS 19 (61(c))			✔ (detailed disclosure requirements are omitted and replaced with a broad requirement to disclose the material components of movement in the net deferred tax balance)

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
9.11	FRS 19 (64(b))		✔ (no reference to tax that may become payable or recoverable in the foreseeable future)	
9.12	FRS 16 (8)	✔		
9.13	FRS 16 (9)	✔		
9.14	SSAP 5 (8, 9)		✔ (no reference to gross turnover)	
10.1	FRS 17 (7)	✔		
10.2	FRS 17 (75)	✔		
10.3				New paragraph: refers the user to Appendix II – 'Accounting for retirement benefits: defined benefit schemes'

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
11.1	FRS 12 (3, 8)		✔ (no reference to financial instruments, executory contracts, long-term contracts or insurance entities)	
11.2	FRS 12 (14, 36, 45, 48)	✔		
11.3	FRS 12 (54, 56, 57)			✔ (no restriction that amounts recognised as reimbursements may not exceed related provision)
11.4	FRS 12 (62)		✔ (emphasis that provisions may need to be reversed omitted)	
11.5	FRS 12 (64)	✔		
11.6	FRS 12 (27, 31)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
11.7	FRS 12 (91, 94)			✔ (disclosures relating to uncertainties and reimbursement omitted)
12.1	FRS 4 (24)	✔		
12.2	FRS 4 (28)		✔ ('debt' is replaced by 'borrowings'; no reference to investment companies)	
12.3	FRS 4 (27, 29)			✔ (borrowings initially stated at fair value of consideration received)
12.4				New paragraph: treatment of arrangement fees.

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
12.5	FRS 4 (43)		✔ (the word 'non-equity' has been deleted; it is specified that the dividends should be shown in the profit and loss account and the amounts accrued in excess of dividends should be shown separately in shareholders' funds)	
13.1	SSAP 20 (46)	✔		
13.2	SSAP 20 (47)	✔		
13.3	SSAP 20 (48)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
13.4	SSAP 20 (49, 50)			✔ (references to exceptional and extraordinary items omitted)
13.5	SSAP 20 (51)	✔		
13.6	SSAP 20 (52)	✔		
13.7	SSAP 20 (53)	✔		
13.8	SSAP 20 (54)	✔		
13.9	SSAP 20 (22, 55)	✔		
13.10	SSAP 20 (56)	✔		
13.11	SSAP 20 (57, 58)	✔		
14.1	SSAP 17 (21)	✔		
14.2	SSAP 17 (22)	✔		
14.3	SSAP 17 (23)	✔		
14.4	SSAP 17 (24)	✔		
14.5	SSAP 17 (25)	✔		
14.6	SSAP 17 (26)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
15.1	FRS 8 (2.6, 6, 19)			✔ (the list of transactions is summarised and materiality is in relation to the reporting entity only)
15.2			New paragraph: to clarify that the standard requires disclosure of directors' personal guarantees for their company's borrowings.	
15.3	FRS 8 (6)	✔		
15.4	FRS 8 (3, 4)		✔ (no reference to exemptions for groups, as given in paragraph 16.1; some explanation omitted)	
15.5	FRS 8 (5)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
16.1				New paragraph: refers the user to FRSs 2, 5-7, 9-11 where group accounts are being prepared and the FRS 8 group exemptions.
17.1			New paragraph: effective date.	
17.2	FRS 10 (66, 69)			✔ (old goodwill previously eliminated against reserves is either wholly reinstated or wholly left in reserves)
17.3	FRS 15 (104)		✔ (no reference to testing for impairment)	
17.4	FRS 15 (106, 108)	✔		
18.1				New paragraph: revised FRSSE supersedes previous version

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
App II paragraph 1(a)	SSAP 24 (77)		✔ (refers to other post-retirement benefits, as well as pensions)	
App II paragraph 1(b)	SSAP 24 (79)	✔		
App II paragraph 1(c)	SSAP 24 (80)	✔		
App II paragraph 1(d)	SSAP 24 (84)	✔		
App II paragraph 1(e)	SSAP 24 (85)	✔		
App II paragraph 1(f)	SSAP 24 (86)	✔		
App II paragraph 1(g)	SSAP 24 (90)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
App II paragraph 1(h)	SSAP 24 (88) FRS 17 (88)			✔ (no reference to disclosure of accounting policy, or funding policy, or circumstances where the actuary is an employee or officer of the company; no explanation of what the 'outline of the results of the most recent formal actuarial valuation' should contain; no reference to disclosure of the treatment of refunds; no requirement to analyse the movements in the surplus or deficit in the scheme)
App II paragraph 1(i)	FRS 17 (88)	✔		
App II paragraph 2(a)	FRS 17 (14)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
App II paragraph 2(b)	FRS 17 (20)		✔ (no explanation of constructive obligation)	
App II paragraph 2(c)	FRS 17 (23)	✔		
App II paragraph 2(d)	FRS 17 (32)		✔ (no explanation of why the specified rate should be used)	
App II paragraph 2(e)	FRS 17 (35)	✔		
App II paragraph 2(f)	FRS 17 (37)	✔		
App II paragraph 2(g)	FRS 17 (47)		✔ (no reference to employers with more than one scheme)	
App II paragraph 2(h)	FRS 17 (49)	✔		

FRSSE paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
App II paragraph 2(i)	FRS 17 (50, 51, 56, 57, 60, 64)		✔ (only the basic requirements relating to the timing and presentation of gains and losses are included)	
App II paragraph 2(j)	FRS 17 (76)	✔		
App II paragraph 2(k)	FRS 17 (88)	✔		

Definition: source document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Accounting policies FRS 18 (4)	✔		
Actuarial gains and losses FRS 17 (2)		✔ (no reference to experience gains and losses)	
Adjusting events SSAP 17 (19)	✔		
Applied research SSAP 13 (21(b))	✔		
Arrangement fees FRS 4 (10)			✔ (the FRS 4 definition of issue costs has been used to define arrangement fees)
Assets FRS 5 (2)	✔		
Attributable profit (on long-term contracts) SSAP 9 (23)	✔		

Definition: source document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Average remaining service life SSAP 24 (58)		✔ (no guidance on the weightings in calculating the weighted average service lives of employees)	
Borrowings FRS 4 (6)		✔ (refers to 'borrowings', rather than 'debt')	
Capital instruments FRS 4 (2)			✔ (definition extended to specify that it refers to 'arrangements entered into' as well as instruments that are 'issued')
Close family FRS 8 (2.1)	✔		
Closing rate SSAP 20 (41)	✔		
Companies legislation FRS 5 (10)	✔		
Consignment stock FRS 5 (A1)		✔ (omitted explanation)	

Definition: source document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Consolidated financial statements FRS 2 (4, 5, 9)	✔		
Contingent asset FRS 12 (2)	✔		
Contingent liability FRS 12 (2)		✔ (terminology simplified)	
Cost (of stock) SSAP 9 (17)		✔ (attributable overheads are given as an example of conversion costs)	
Current funding level (of a pension scheme) SSAP 24 (59)	✔		
Current service cost FRS 17 (2)	✔		
Current tax FRS 16 (2)	✔		
Curtailment FRS 17 (2)		✔ (examples omitted)	
Deferred tax FRS 19 (2)	✔		
Defined benefit scheme FRS 17 (2)		✔ (no reference to funding)	
Defined contribution scheme FRS 17 (2)	✔		

Definition: source document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Depreciation FRS 15 (2)	✔		
Development SSAP 13 (21(c))	✔		
Directors APB Statements of Auditing Standards (Glossary of terms)	✔		
Estimation techniques FRS 18 (4)	✔		
Ex gratia pension SSAP 24 (60)	✔		
Exceptional items FRS 3 (5)	✔		
Exchange rate SSAP 20 (40)	✔		
Extraordinary items FRS 3 (6)	✔		
Fair value SSAP 21 (25), FRS 7 (2)	✔		
Finance charge (on a lease) SSAP 21 (27)	✔		
Finance costs (of a capital instrument) FRS 4 (8)			✔ (arrangement fees have been excluded from this definition)

Definition: source document and paragraph	**Complete (a)**	**Minor changes (b)**	**Major changes (c)**
Finance lease SSAP 21 (15)			✔ (there is no supporting definition of the interest rate implicit in a lease)
Foreign entity SSAP 20 (36)	✔		
Foreseeable losses (on a long-term contract) SSAP 9 (24)	✔		
Forward contract SSAP 20 (42)	✔		
Funded scheme SSAP 24 (65)	✔		
Goodwill FRS 10 (2)		✔ (terminology simplified)	
Government SSAP 4 (21)	✔		
Government grants SSAP 4 (22)	✔		
Gross earnings (from a lease) SSAP 21 (28)			✔ (no reference is made to the treatment of tax-free grants available to a lessor)

Definition: source document and paragraph	**Complete (a)**	**Minor changes (b)**	**Major changes (c)**
Hire purchase contract SSAP 21 (18)	✔		
Identifiable assets and liabilities FRS 7 (2), FRS 10 (2)	✔		
Inception (of a lease) SSAP 21 (29)	✔		
Intangible assets FRS 10 (2)	✔		
Interest cost FRS 17 (2)	✔		
Investment property SSAP 19 (7, 8)	✔		
Lease term SSAP 21 (19)	✔		
Liabilities FRS 5 (4)	✔		
Local currency SSAP 20 (39)	✔		
Long-term contract SSAP 9 (22)	✔		
Minimum lease payments SSAP 21 (20)	✔		

Definition: source document and paragraph	**Complete (a)**	**Minor changes (b)**	**Major changes (c)**
Monetary items SSAP 20 (44)		✔ (no reference to exempt companies)	
Net investment (in a foreign entity) SSAP 20 (43)	✔		
Net investment (in a lease) SSAP 21 (21, 22, 26)	✔		
Net realisable value (of fixed assets) FRS 11 (2)	✔		
Net realisable value (of stocks and long-term contracts) SSAP 9 (21)	✔		
Non-adjusting events SSAP 17 (20)	✔		
Obligation FRS 12 (2)		✔ (definitions of legal and constructive obligations combined and terminology simplified)	
Operating lease SSAP 21 (17)	✔		
Ordinary activities FRS 3 (2)	✔		

Definition: source document and paragraph	**Complete (a)**	**Minor changes (b)**	**Major changes (c)**
Past service cost FRS 17 (2)	✔		
Pension schemes SSAP 24 (70)	✔		
Permanent differences FRS 19 (2)	✔		
Post balance sheet events SSAP 17 (18)	✔		
Prior period adjustments FRS 3 (7)	✔		
Projected unit method FRS 17 (2)	✔		
Provision FRS 12 (2)	✔		
Purchased goodwill FRS 10 (2)		✔ (additional explanation that it arises on the purchase of a business accounted for as an acquisition)	
Pure (or basic) research SSAP 13 (21(a))	✔		
Recognised FRS 5 (6)	✔		

Definition: source document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
Recoverable amount FRS 11 (2, 20)		✔ (wording has been expanded slightly, to include more explanation; definition also includes definition of value in use, which has been given greater flexibility for interpretation)	
Regular (pension) cost SSAP 24 (72)	✔		
Related parties FRS 8 (2.5)			✔ ('influence' is replaced by 'significant influence'; explanation is replaced with straightforward list of common related parties)
Research and development expenditure SSAP 13 (21)	✔		
Residual value SSAP 12 (12)	✔		
Retirement benefits FRS 17 (2)	✔		
Scheme liabilities FRS 17 (2)	✔		

Definition: source document and paragraph	**Complete (a)**	**Minor changes (b)**	**Major changes (c)**
Settlement FRS 17 (2)		✔ (examples omitted)	
Start-up costs UITF Abstract 24 (4)	✔		
Tangible fixed assets FRS 15 (2)	✔		
Tax credit FRS 16 (2)	✔		
Term (of a capital instrument) FRS 4 (16)	✔		
Timing differences FRS 19 (2)		✔ (no reference to the fact that timing differences can reverse in one or more subsequent periods; examples omitted)	
Total recognised gains and losses FRS 3 (8)	✔		
Translation SSAP 20 (38)	✔		
Useful economic life SSAP 12 (11)	✔		
Withholding tax FRS 16 (2)	✔		

Voluntary disclosures: paragraph	Source: document and paragraph	Complete (a)	Minor changes (b)	Major changes (c)
1				New paragraph: encourages entities to give a cash flow statement.
2				New paragraph: outlines the indirect method of cash flow statement.
3	FRS 1 (Revised 1996) (2)			✔ (definition of cash loosely based on FRS 1 (Revised 1996) definition; additional proposal to reconcile cash to the balance sheet)
4	FRS 1 (Revised 1996) (39)		✔ (included principle but detail is omitted)	
5	FRS 1 (Revised 1996) (46)	✔		

APPENDIX VI

SIMPLIFICATIONS IN THE FRSSE

This appendix sets out simplifications that have been made in the FRSSE as compared with the existing body of accounting standards. The analysis below is based on a comparison between the FRSSE and:

(a) the Standard Accounting Practice section in SSAPs;

(b) the Statement of Standard Accounting Practice in FRSs; and

(c) the UITF consensus in UITF Abstracts.

It therefore does not take into consideration any of the explanatory notes that are included in the SSAPs and FRSs, nor does it attempt to list definitions that are set out in the SSAPs and FRSs but have not been incorporated into the FRSSE.

	Paragraph in source
SSAP 4 ***Accounting for government grants***	
◆ The explanations in paragraph 23 are omitted; only the principle, that grants should be recognised in the profit and loss account to match them with the expenditure towards which they are intended to contribute, is retained. There is no specific statement on dealing with grants made to give immediate financial support, or to finance the general activities of an entity.	**23**
◆ No reference to grants relating to leased assets in the accounts of lessors; SSAP 4 cross-refers to SSAP 21.	**26**
◆ No reference to the disclosure of the accounting policy.	**28**
◆ No reference to disclosure of potential liabilities to repay grants; SSAP 4 cross-refers to SSAP 18.	**29**
SSAP 5 ***Accounting for value added tax***	
◆ No reference to disclosure of gross turnover.	**8**

	Paragraph in source
SSAP 9 ***Stocks and long-term contracts***	
◆ No requirement to subclassify stocks.	**27**
◆ No reference to the disclosure of the accounting policy and the need to apply it consistently.	**32**
SSAP 13 ***Accounting for research and development***	
◆ The FRSSE does not stress that fixed assets for pure and applied research may be capitalised.	**24**
◆ No reference to disclosure and explanation of accounting policy.	**30**
◆ No requirement to disclose amounts charged to profit and loss account.	**31**
◆ No requirement to disclose movements on deferred development expenditure.	**32**
SSAP 17 ***Accounting for post balance sheet events***	
◆ No differences.	**—**
SSAP 19 ***Accounting for investment properties***	
◆ No reference to investment companies or property unit trusts, insurance companies or pension funds.	**13, 14**
◆ No requirement to display the investment revaluation reserve prominently in the financial statements.	**15**

	Paragraph in source
SSAP 20 ***Foreign currency translation***	
◆ No proviso for restricting exchange gains taken to the profit and loss account on long-term monetary items where there is doubt as to the marketability or convertibility of the currency.	**11, 50**
◆ No references to hyper-inflation.	**26**
◆ No reference to 'exempt companies'.	**35**
◆ No reference to the treatment of exchange gains or losses resulting from extraordinary items.	**49**
◆ No reference to disclosure of accounting policy.	**59**
◆ No requirement to disclose foreign exchange gains and losses charged/credited to the profit and loss account or offset in reserves under the hedging provisions, in respect of foreign currency borrowings less deposits.	**60**
◆ No requirement to disclose movements on reserves arising from exchange differences.	**60**

	Paragraph in source
SSAP 21 ***Accounting for leases and hire purchase contracts***	
◆ For a finance lease, an asset and liability should be stated at fair value, not the present value of the minimum lease payments, unless that is not a realistic estimate.	**32, 33**
◆ For finance leases where grants are received there is no stipulation that the amount to be capitalised should be restricted to the minimum lease payments.	**34**
◆ Added emphasis that finance charges may be charged on a straight-line basis as a reasonable approximation.	**35**
◆ For lessors, gross earnings under finance leases should be recognised on a systematic and rational basis, with no further guidance given.	**39, 40**
◆ No reference is made to the treatment of tax-free grants available to a lessor.	**41**
◆ No reference is made to charges for services when recognising rental income from an operating lease.	**43**
◆ No reference is made to the treatment of initial direct costs incurred by a lessor in arranging a lease.	**44**
◆ Accounting for sale and leasebacks by the buyer/lessor follows the amended treatment for lessors as set out above.	**48**
◆ Disclosure of gross amounts of assets and related accumulated depreciation for finance leased assets should be analysed by (1) land and buildings and (2) other assets, rather than by major class of asset.	**49**

	Paragraph in source
◆ The requirement to show depreciation for the period in respect of finance-leased assets by major class of asset is not included in the FRSSE.	**49**
◆ No requirement for lessees to analyse obligations under finance leases.	**52**
◆ No requirement for lessees to disclose finance charges and operating lease rentals charged for the period.	**53, 55**
◆ Disclosure of operating lease commitments need not be analysed into land and buildings and other operating leases.	**56**
◆ No reference is made to the disclosure of the accounting policies.	**57, 60**
◆ No reference is made to the disclosure of aggregate rentals receivable by lessors.	**60**
◆ No definition is given of 'the interest rate implicit in a lease'.	**24**

	Paragraph in source
SSAP 24 ***Accounting for pension costs*** ***[paragraph 1 of Appendix II to the FRSSE]***	
◆ The paragraph setting out the accounting objective has been widened to cover other post-retirement benefits (FRS 17) as well as pensions.	**77**
◆ No reference to circumstances where a significant change in the normal level of contributions occurs because of an adjustment to eliminate a surplus or deficit resulting from a significant reduction in the number of employees covered by the pension scheme.	**81**
◆ No provision for recognising a material deficit over a shorter period on the grounds of prudence.	**82**
◆ No provision for the accounting treatment of refunds.	**83**
◆ No requirement to disclose accounting policy, or funding policy, or circumstances where the actuary is an employee or officer of the company. No explanation of what the 'outline of the results of the most recent formal actuarial valuation' should contain. No reference to disclosure of the treatment of refunds.	**87, 88**
◆ No provision for circumstances where a company has more than one pension scheme.	**89**
◆ No reference to foreign schemes.	**91**

	Paragraph in source
SSAP 25 ***Segmental reporting***	
◆ Not covered in the FRSSE.	—
FRS 1 (Revised 1996) ***Cash Flow Statements***	
◆ There is no requirement for a cash flow statement in the FRSSE. However, a voluntary cash flow statement, presented using the indirect method, is recommended. The only requirements of FRS 1 (Revised 1996) included in the voluntary disclosures are:	—
◆ the definition of cash (simplified).	**2**
◆ the reconciliation between operating profit and operating cash flows.	**12**
◆ the treatment of VAT in cash flows.	**39**
◆ the disclosure of material non-cash transactions.	**46**
FRS 2 ***Accounting for Subsidiary Undertakings***	
◆ Not addressed by the FRSSE, except that the user is cross-referred to it, if group accounts are being prepared.	—

	Paragraph in source
FRS 3 ***Reporting Financial Performance***	
◆ No requirement to analyse the turnover, costs, results and exceptional items into continuing operations, acquisitions and discontinued operations.	**14-17, 20**
◆ No reference to the consequences of a decision to sell or terminate an operation and the provisions that may be recognised.	**18**
◆ No requirement to disclose special circumstances affecting the tax attributable to 'paragraph 20' exceptional items.	**23**
◆ No statements relating to computing or disclosing tax on extraordinary and exceptional (paragraph 20) items.	**20, 22, 24**
◆ No reference to earnings per share.	**25**
◆ No requirement for a note of historical cost profits and losses.	**26**
◆ If there are no gains or losses other than those included in the profit and loss account no statement of total recognised gains and losses is required.	**27**
◆ No requirement for a reconciliation of movements in shareholders' funds.	**28**
◆ No reference to presenting comparative figures.	**30**
◆ No reference to investment companies or insurance businesses.	**31, 31A**

	Paragraph in source
FRS 4 ***Capital Instruments***	
◆ The only parts of FRS 4 that have been included in the FRSSE are:	
◆ the explanation of which capital instruments should be classified as liabilities and which as shareholders' funds.	**24**
◆ the requirement to allocate the finance costs of borrowings to periods over the term of the borrowings at a constant rate on the carrying amount.	**28**
◆ the carrying amount at which borrowings should be shown in the balance sheet, amended for the treatment of arrangement fees.	**27, 29**
◆ the requirement to account for dividends on an accruals basis (unless ultimate payment is remote) where the entitlement to dividends is calculated by reference to time, and to account for dividends as appropriations of profit.	**43**
All other elements of the FRS have been omitted.	
◆ A new paragraph has been added addressing the treatment of arrangement fees.	**—**
◆ The FRS 4 definition of issue costs has been used instead to define arrangement fees and arrangement fees have been excluded from the definition of finance costs.	**10**

	Paragraph in source
◆ The definition of capital instruments has been extended to specify that it refers to 'arrangements entered into' as well as instruments that are 'issued'.	**2**
◆ The FRS 4 definition of debt has been used to define borrowings.	**6**
FRS 5 ***Reporting the Substance of Transactions***	
◆ Not covered in the FRSSE, except that:	
◆ the principle that a reporting entity's financial statements should report the substance of transactions into which it has entered is reflected in paragraph 2.1 of the FRSSE.	**14**
◆ a reference to assets and liabilities in determining the substance of a transaction is included.	**16**
◆ the user is cross-referred to it, if group accounts are being prepared, to the extent that it addresses group accounts.	**—**
◆ Application Note C on debt factoring has been summarised in the FRSSE and the Table in C is reproduced in Appendix III.	**C4, C5, C15, C18-C20**
◆ the treatment of consignment stock and its definition have been included in the FRSSE. The Table in Application Note A is reproduced in Appendix III.	**27, A11, A12**
◆ the definition of 'recognition' has been included in the FRSSE.	**6**

	Paragraph in source
FRS 6 ***Acquisitions and Mergers***	
◆ Not addressed by the FRSSE, except that the user is cross-referred to it, if group accounts are being prepared.	—
FRS 7 ***Fair Values in Acquisition Accounting***	
◆ Not addressed by the FRSSE, except that the user is cross-referred to it, if group accounts are being prepared.	—
FRS 8 ***Related Party Disclosures***	
◆ The user is cross-referred to the exemptions available if group accounts are being prepared.	3
◆ There is no requirement to consider the materiality of transactions in relation to the other party.	20
◆ A new paragraph has been added, clarifying that the standard requires disclosure of directors' personal guarantees for their company's borrowings.	—
◆ The definition of related party refers to control, common control and significant influence.	2

	Paragraph in source
FRS 9 ***Associates and Joint Ventures***	
◆ Not addressed by the FRSSE, except that the user is cross-referred to it, if group accounts are being prepared.	—
FRS 10 ***Goodwill and Intangible Assets***	
◆ Simplifications apply only in respect of goodwill and intangible assets arising in the financial statements of an individual entity. (Consolidated financial statements must be based on FRS 10 in its entirety.)	—
◆ FRSSE has a requirement, rather than a presumption, that useful economic lives are limited to 20 years. Consequentially, requirements relating to lives in excess of 20 years and indefinite lives are omitted.	**17, 19, 37**
◆ Exception allowing recognition of internally generated intangible assets that have a 'readily ascertainable' market value is omitted.	**14**
◆ Exception allowing revaluation of intangible assets with a 'readily ascertainable' market value is omitted. Consequential restrictions and requirements relating to revaluation are also omitted.	**43, 45, 47**
◆ No reference to need to restrict fair values attributed to intangible assets to amounts that do not create or increase negative goodwill.	**10**

	Paragraph in source
◆ No reference to restrictions on useful economic lives to the lives of the underlying legal rights.	**24**
◆ Requirements relating to recognition of impairment losses simplified as detailed under the heading for FRS 11.	**34, 37, 39–42**
◆ No reference to requirement not to split purchased goodwill arising on a single transaction into positive and negative components.	**51**
◆ With the exception of the requirement to disclose the amount and periods over which negative goodwill is being written back in the profit and loss account, the disclosure and presentation requirements are omitted.	**48, 52–62, 64, 70(b), 71**
◆ Transitional arrangements for old goodwill previously eliminated against reserves are simplified: it is to be either wholly reinstated or wholly left in reserves.	**69**
◆ No specific requirements relating to impairment losses recognised on first implementing the FRS or intangible assets previously included within goodwill.	**70(a), 70(c), 74**
FRS 11 ***Impairment of Fixed Assets and Goodwill***	
◆ Only the key principle that assets held at above recoverable amount should be written down to recoverable amount and the conditions for recognising the reversal of write-downs are included in the FRSSE.	**14, 21, 56, 60, 63**

	Paragraph in source
FRS 12 ***Provisions, Contingent Liabilities and Contingent Assets***	
◆ No reference to financial instruments, executory contracts, long-term contracts or insurance entities.	**3**
◆ No reference to rare cases where it is not clear whether there is a present obligation.	**15**
◆ No reference to risks, uncertainties and future events being taken into account in measuring a provision.	**42, 51**
◆ Detailed rules relating to discount rates omitted.	**47**
◆ No restriction that amounts recognised as reimbursements may not exceed related provision.	**56**
◆ No reference to provisions and capitalising assets.	**66**
◆ No reference to future operating losses, onerous contracts, restructuring or the sale of an operation.	**68, 71, 77, 83, 85**
◆ With exception of nature and financial effect of contingent liabilities (unless remote) and probable contingent assets, disclosure requirements omitted.	**89-91, 94, 96, 97**
FRS 13 ***Derivatives and other Financial Instruments: Disclosures***	
◆ FRS 13 is not addressed by the FRSSE.	**—**

	Paragraph in source
FRS 14 ***Earnings per Share***	
◆ FRS 14 is not addressed by the FRSSE.	—
FRS 15 ***Tangible Fixed Assets***	
◆ No reference to start-up or commissioning periods.	14
◆ References to when capitalisation of finance costs should begin omitted.	25
◆ No reference to construction of a tangible fixed asset being completed in parts.	29
◆ No reference to major inspections or overhauls for subsequent expenditure.	36
◆ Bases for revaluation simplified, being market value or best estimate thereof for all tangible fixed assets (unless judged inappropriate by the directors in which case current value used instead). Consequently, detailed valuation requirements for certain tangible fixed assets omitted.	43, 53, 59
◆ No reference to cases where impossible to obtain reliable valuation.	61
◆ Treatment of revaluation losses simplified.	65, 66
◆ Statement omitted that, in determining treatment of gains and losses, material gains and losses within a class should not be aggregated.	67
◆ No reference to insurance companies and insurance groups.	71

	Paragraph in source
◆ Statement omitted that subsequent expenditure does not negate need for depreciation.	**86**
◆ No specific requirement for annual impairment review where asset life exceeds 50 years or depreciation omitted as immaterial.	**89**
◆ Residual values and useful economic lives to be reviewed regularly, rather than annually, and revised when necessary rather than when expectations significantly different from previous estimates.	**93**
◆ No reference to renewals accounting.	**97, 98**
◆ With exception of requirement to disclose depreciation methods, useful economic lives or depreciation rates and, where material, financial effect of changes to useful economic lives or residual values, disclosure requirements omitted.	**31, 61, 74, 100**
FRS 16 Current Tax	
◆ Prohibition of adjustments to income and expenses to reflect notional tax not included.	**11**
◆ No reference to tax rates (to be used for measuring current tax).	**14**
◆ Detailed disclosure requirements relating to the major components of the charge omitted.	**17**

	Paragraph in source
FRS 17 Retirement Benefits [paragraph 2 of Appendix II to the FRSSE]	
◆ No reference to multi-employer schemes.	**9**
◆ Requirement to attribute benefits according to the scheme's benefit formula omitted.	**22**
◆ Requirement to reflect expected future events in actuarial assumptions omitted.	**27**
◆ Detailed requirements relating to the treatment of a surplus omitted.	**41, 42, 67, 68, 70**
◆ Detailed requirements relating to the treatment of gains and losses omitted.	**50, 51,53, 54, 57, 60, 61**
◆ Requirement relating to the recognition of current tax relief on contributions omitted.	**71**
◆ Requirement relating to death-in-service and incapacity benefits omitted.	**73**
◆ Detailed disclosure requirements omitted.	**75*, 78, 80, 82-86, 90, 92**

* *This reference relates to paragraph 10.2 of the Statement of Standard Accounting Practice of the FRSSE (ie not Appendix II).*

	Paragraph in source
FRS 18 ***Accounting Policies***	
◆ No reference to the adoption of accounting policies that enable the financial statements to give a true and fair view.	**14**
◆ No reference to departures from accounting standards or UITF Abstracts in exceptional circumstances.	**15**
◆ No reference to preparation of financial statements on a going concern basis.	**21**
◆ No reference to preparation of financial statements on the accrual basis.	**26**
◆ No reference to the constraints that should be taken into account in judging the appropriateness of accounting policies.	**31**
◆ No reference to the selection of estimation techniques that enable the financial statements to give a true and fair view.	**50**
◆ The requirement relating to accounting for changes in an estimation technique omitted.	**54**
◆ The disclosure requirement relating to significant estimation techniques omitted.	**55(b)**
◆ No reference to SORPs.	**58**
◆ No reference to the disclosure required when financial statements are not prepared on a going concern basis.	**61(c)**

	Paragraph in source
◆ No reference to departures from accounting standards, UITF Abstracts or companies legislation.	**62**
◆ Requirement to cross-refer to disclosures required by companies legislation omitted.	**64**
FRS 19 Deferred Tax	
◆ The requirement to provide deferred tax when assets are 'marked to market' omitted.	**12**
◆ The requirement relating to unremitted earnings of subsidiaries, associates or joint ventures omitted.	**21**
◆ The FRSSE states that discounting of deferred tax balances is not required (but if it is done, it should be done consistently) and does not make any further reference to discounting.	**42, 44, 47, 52, 61(b)**
◆ The presentational requirements of the standard omitted.	**55, 56, 58, 59**
◆ Detailed disclosure requirements, with the exception of those relating to revalued assets (paragraph 64(b)) and the unwinding of any discount (paragraph 60(a)(ii)), omitted.	**60, 61, 62, 64**

UITF Abstract 4
Presentation of long-term debtors in current assets

- Not addressed by the FRSSE.

UITF Abstract 5
Transfers from current assets to fixed assets

- Not addressed by the FRSSE.

UITF Abstract 9
Accounting for operations in hyper-inflationary economies

- Not addressed by the FRSSE.

UITF Abstract 10
Disclosure of directors' share options

- Not addressed by the FRSSE.

UITF Abstract 11
Capital instruments: issuer call options

- Not addressed by the FRSSE.

UITF Abstract 13
Accounting for ESOP Trusts

- Not addressed by the FRSSE.

UITF Abstract 15 (revised 1999)
Disclosure of substantial acquisitions

- Not addressed by the FRSSE.

UITF Abstract 17 (revised 2000)
Employee share schemes

- Not addressed by the FRSSE.

UITF Abstract 19
Tax on gains and losses on foreign currency borrowings that hedge an investment in a foreign enterprise

- Not addressed by the FRSSE.

UITF Abstract 21
Accounting issues arising from the proposed introduction of the euro

- Only the basic accounting principle is incorporated into the FRSSE.
- The specific disclosure requirements are not included in the FRSSE.

UITF Abstract 22
The acquisition of a Lloyd's business

- Not addressed by the FRSSE.

UITF Abstract 23
Application of the transitional rules in FRS 15

- Not addressed by the FRSSE.

UITF Abstract 24
Accounting for start-up costs

- No reference to the disclosures detailed in paragraph 10 of the Abstract.

UITF Abstract 25
National Insurance contributions on share option gains

- Not addressed by the FRSSE.

UITF Abstract 26
Barter transactions for advertising

- Not addressed by the FRSSE.

UITF Abstract 27
Revision to estimates of the useful economic life of goodwill and intangible assets

- Not addressed by the FRSSE.

UITF Abstract 28
Operating lease incentives

- No reference to spreading incentives on a basis other than straight-line.

- No reference to investment properties (paragraph 16 of the Abstract) or debtors (paragraph 17).

UITF Abstract 29
Website development costs

- Not addressed by the FRSSE.

UITF Abstract 30
Date of award to employee of shares or rights to shares

- Not addressed by the FRSSE.

APPENDIX VII

AMENDMENT TO THE FRSSE (EFFECTIVE MARCH 2000)

1 The majority of the Financial Reporting Standard for Smaller Entities (effective June 2002) is the same as the previous version of the FRSSE, which it supersedes. New paragraphs or significant revisions have been highlighted in Parts B and C by sidelining the text. Most amendments arise from the incorporation of the relevant aspects of the following FRSs and UITF Abstracts, modified and simplified where appropriate for smaller entities:

		Issued
FRS 16	Current Tax	December 1999
FRS 17	Retirement Benefits	November 2000
FRS 18	Accounting Policies	December 2000
FRS 19	Deferred Tax	December 2000
UITF Abstract 23	Application of the transitional rules in FRS 15	May 2000
UITF Abstract 24	Accounting for start-up costs	June 2000
UITF Abstract 25	National Insurance contributions on share option gains	July 2000
UITF Abstract 17 (revised 2000)	Employee share schemes	October 2000
UITF Abstract 26	Barter transactions for advertising	November 2000

UITF Abstract 27	Revision to estimates of useful economic life of goodwill	December 2000
UITF Abstract 28	Operating lease incentives	February 2001
UITF Abstract 29	Website development costs	February 2001
UITF Abstract 30	Date of award to employees of shares or rights to shares	March 2001

2 This appendix sets out all the changes to Part B 'Statement of Standard Accounting Practice' and Part C 'Definitions' of the FRSSE (effective March 2000) that have been incorporated into this version of the FRSSE. In addition, Appendix II 'Requirements for companies subject to taxation in the Republic of Ireland' has been deleted and a new Appendix II 'Accounting for retirement benefits: defined benefit schemes' has been added to the FRSSE.

Current tax (FRS 16)

Amendments to Statement of Standard Accounting Practice

3 Paragraph 9.1 of the Statement of Standard Accounting Practice of the FRSSE is deleted and replaced with the following:

"9.1 **Tax** (**current** and **deferred**) should 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 should also be **recognised** directly in that statement).

9.1A The material components of the (**current** and **deferred**) **tax** charge (or credit) for the period should be disclosed separately."

4 Paragraphs 9.19–9.21 of the Statement of Standard Accounting Practice of the FRSSE are deleted and replaced with the following, immediately after the revised paragraphs on deferred tax (as detailed below):

"*Tax on dividends*

9.12 Outgoing dividends and similar amounts payable should be **recognised** at an amount that includes any **withholding tax** but excludes other taxes, such as attributable **tax credits**.

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

Amendments to definitions

5 The definitions of irrecoverable ACT and recoverable ACT in Part C 'Definitions' of the FRSSE are deleted. The following definitions are inserted in Part C 'Definitions' of the FRSSE:

"*Current tax:-*
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."

"*Tax credit:-*
The tax credit given under UK legislation to the recipient of a dividend from a UK company."

"*Withholding tax:-*
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."

Retirement benefits (FRS 17)

Amendments to Statement of Standard Accounting Practice

6 Section 10 of the Statement of Standard Accounting Practice of the FRSSE is deleted and replaced with the following:

"**10** ***Retirement benefits***

10.1 The cost of a **defined contribution scheme** is equal to the contributions payable to the scheme for the accounting period. The cost should be **recognised** within operating profit in the profit and loss account.

10.2 The following disclosures should be made in respect of a **defined contribution scheme**:

(a) the nature of the scheme (ie defined contribution);
(b) the cost for the period; and
(c) any outstanding or prepaid contributions at the balance sheet date.

10.3 An employer participating in a **defined benefit scheme** should refer to Appendix II 'Accounting for retirement benefits: defined benefit schemes'."

7 In paragraph 11.1 of the Statement of Standard Accounting Practice of the FRSSE, the reference to "pensions" is deleted and replaced with "retirement benefits".

8 The final sentence of paragraph 11.2 of the Statement of Standard Accounting Practice of the FRSSE is deleted and replaced with the following:

"11.2 …Where discounting is used, the unwinding of the discount should be shown as other finance costs adjacent to interest."

Amendments to definitions

9 The definitions of defined benefit scheme and defined contribution scheme in Part C 'Definitions' of the FRSSE are deleted. The following definitions are inserted:

"*Actuarial gains and losses:-*
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."

"*Current service cost:-*
The increase in the present value of the **scheme liabilities** expected to arise from employee service in the current period."

"*Curtailment:-*
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."

"Defined benefit scheme:-
A pension or other **retirement benefit** scheme other than a **defined contribution scheme**. 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."

"*Defined contribution scheme:-*
A pension or other **retirement benefit** 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 **obligation** to pay further contributions if the scheme does not have sufficient **assets** to pay all employee benefits relating to employee service in the current and prior periods."

"*Interest cost:-*
The expected increase during the period in the present value of the **scheme liabilities** because the benefits are one period closer to **settlement**."

"*Past service cost:-*
The increase in the present value of the **scheme liabilities** related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, **retirement benefits**."

"*Projected unit method:-*
An accrued benefits valuation method in which the **scheme liabilities** make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the **scheme liabilities** at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (ie 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
(b) the accrued benefits for members in service on the valuation date.

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."

"*Retirement benefits:-*
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."

"*Scheme liabilities:-*
The **liabilities** of a **defined benefit scheme** for outgoings due after the valuation date. Scheme liabilities measured using the **projected unit method** reflect the benefits that the employer is committed to provide for service up to the valuation date."

"*Settlement:-*
An irrevocable action that relieves the employer (or the **defined benefit scheme**) of the primary responsibility for a pension **obligation** and eliminates significant risks relating to the **obligation** and the **assets** used to effect the settlement."

Accounting policies (FRS 18)

Amendments to Statement of Standard Accounting Practice

10 Paragraph 2.3 of the Statement of Standard Accounting Practice of the FRSSE is amended to read as follows (the footnote remains unchanged and therefore has not been reproduced here):

"2.3 The financial statements should state that they have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002)."

11 Paragraphs 2.4–2.6 of the Statement of Standard Accounting Practice of the FRSSE are deleted and replaced with the following:

"2.4 **Accounting policies** and **estimation techniques** should be consistent with the requirements of the FRSSE and of **companies legislation** (or other equivalent legislation). Where this permits a choice, an entity should 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.

2.5 **Accounting policies** should 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 should be given to the impact on comparability. Following a change in **accounting policy**, the amounts for the current and corresponding periods should be restated on the basis of the new policies.

2.6 When preparing financial statements, **directors** should 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, should 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 should be stated.

2.7 Financial statements should 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."

12 The heading above paragraph 2.3 '*Accounting principles and policies'* is deleted and replaced with a new heading '*Accounting policies'*.

13 Paragraph 2.7 of the Statement of Standard Accounting Practice of the FRSSE is renumbered as 2.8.

14 Paragraph 2.8 of the Statement of Standard Accounting Practice of the FRSSE is deleted.

Amendments to definitions

15 The definitions of accounting policies and accounting principles in Part C 'Definitions' of the FRSSE are deleted. The following definitions are inserted:

"*Accounting policies:-*
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

(i) **recognising**,
(ii) selecting measurement bases for, and
(iii) presenting

assets, **liabilities**, gains, losses and changes to shareholders' funds. Accounting policies do not include **estimation techniques**.

> 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 **asset** or a loss is to be **recognised**; 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."

"Estimation techniques:-
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for **assets**, **liabilities**, gains, losses and changes to shareholders' funds.

Estimation techniques implement the measurement aspects of **accounting policies**. An **accounting policy** 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.

Estimation techniques include, for example:

(a) methods of **depreciation**, 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;

(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."

Deferred tax (FRS 19)

Amendments to Statement of Standard Accounting Practice

16 Paragraphs 9.3–9.18 of the Statement of Standard Accounting Practice of the FRSSE are deleted and replaced with the following:

"9.3 **Deferred tax** should be **recognised** in respect of all **timing differences** that have originated but not reversed by the balance sheet date; however, **deferred tax** should 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**.

9.4 Unrelieved tax losses and other **deferred tax assets** should 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).

9.5 **Deferred tax** should 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** should be reversed.

9.6 **Deferred tax** should not be **recognised** on **permanent differences**.

9.7 **Deferred tax** should 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.

9.8 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 should be discounted. Where discounting is used, the unwinding of the discount should be shown as a component of the tax charge and disclosed separately.

9.9 The **deferred tax** balance and its material components should be disclosed.

9.10 The movement between the opening and closing net **deferred tax** balances, and the material components of this movement, should be disclosed.

9.11 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 should be disclosed."

Amendments to definitions

17 The definitions of deferred tax, the liability method and timing differences in Part C 'Definitions' of the FRSSE are deleted. The following definitions are inserted:

"*Deferred tax:-*
Estimated future tax consequences of transactions and events **recognised** in the financial statements of the current and previous periods."

"*Permanent differences:-*
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."

"*Timing differences:-*
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 **recognised** in financial statements. For example, a timing difference would arise when tax allowances for the cost of a fixed **asset** are accelerated or decelerated, ie received before or after the **depreciation** of the fixed **asset** is **recognised** in the profit and loss account"

Start-up costs (UITF Abstract 24)

Amendment to Statement of Standard Accounting Practice

18 The following paragraph is inserted after paragraph 8.8 of the Statement of Standard Accounting Practice of the FRSSE:

"*Start-up costs*

8.9 **Start-up costs** should 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 should be **recognised** as an expense when they are incurred. They should not be carried forward as an **asset**."

Amendments to definitions

19 The following definition is inserted in Part C 'Definitions' of the FRSSE:

"*Start-up costs:-*
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."

Operating lease incentives (UITF Abstract 28)

Amendment to Statement of Standard Accounting Practice

20 The bracketed words "…(and indeed the lessor)…" are inserted after the word "lessee" in paragraph 6.6 of the Statement of Standard Accounting Practice of the FRSSE.

Year 2000 and the euro (withdrawal of UITF Abstract 20)

21 Paragraph 3.6 of the Statement of Standard Accounting Practice of the FRSSE is deleted and replaced with the following:

"3.6 Costs involved with the introduction of the euro should be written off to the profit and loss account, except where they meet the conditions to be capitalised as a fixed **asset**. Costs may be capitalised (a) where an entity already has an **accounting policy** to capitalise **assets** of the relevant type and (b) to the extent that the expenditure clearly enhances the **asset** beyond that originally assessed, rather than merely maintaining it. If material, the costs written off to the profit and loss account are **exceptional items** and should be disclosed as such."

Date from which effective

Amendment to Statement of Standard Accounting Practice

22 Paragraph 17.1 of the Statement of Standard Accounting Practice is amended to read as follows:

> "17.1 The accounting practices set out in the FRSSE (effective June 2002) should be regarded as standard in respect of financial statements relating to accounting periods ending on or after 22 June 2002. Earlier adoption is encouraged."

Withdrawal of the FRSSE (effective March 2000)

Amendment to Statement of Standard Accounting Practice

23 Paragraph 18.1 is amended to read as follows:

> "18.1 The FRSSE (effective June 2002) supersedes the FRSSE (effective March 2000)."

Amendment of FRS 14 and UITF Abstracts 19-22

Amendment to Statement of Standard Accounting Practice

24 Section 19 of the Statement of Standard Accounting Practice is deleted.

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