

“A flavour of the Report and Accounts of listed companies compulsorily to be prepared using International Accounting Standards as from January 2005 and the audit statement accompanying it.”

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From January 2005 all UK listed companies must produce their financial statements using the International Accounting Standards.

There is only one format for the Balance Sheet, a choice from two formats for the Income Statement , a choice from two formats for Statement of Recognised Gains and Losses and one format for the Cash-Flow statement.

Example of an IAS Balance Sheet:

ABC Group – Balance Sheet as at 31 December 2006

(in thousands of currency units)

	2006	2006	2005	2005
ASSETS				
Non-current assets				
Property, Plant and Equipment	X		X	
Goodwill	X		X	
Manufacturing licences	X		X	
Investments in associates		X		X
Other financial assets	<u>X</u>		<u>X</u>	
	X	X		X
Current assets				
Inventories	X		X	
Trade and other receivables	X		X	
Prepayments	X		X	
Cash and cash equivalents		X		X
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		<u>X</u>		<u>X</u>
Total assets		<u>X</u>		<u>X</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Issued Capital	X		X	
Reserves	X		X	
Accumulated profits/(losses)	<u>X</u>		<u>X</u>	
		X		X
Minority interest		X		X
Non-current liabilities				
Interest bearing loans	X		X	
Deferred tax	X		X	
Retirement benefit obligation	<u>X</u>		<u>X</u>	
		X		X
Current liabilities				
Trade and other payables	X		X	
Short-term borrowings	X		X	
Current portion of interest bearing borrowings	X		X	
Warranty provision	<u>X</u>		<u>X</u>	

	X	X
Total equity and liabilities	<u>X</u>	<u>X</u>

ABC GROUP – INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006
(illustrating the classification of expenses by function)

(in thousands of currency units)

	2006	2005
Revenue	X	X
Cost of sales	<u>(X)</u>	<u>(X)</u>
Gross profit	X	X
Other operating income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other operating expenses	<u>(X)</u>	<u>(X)</u>
Profit from operations	X	X
Finance cost	(X)	(X)
Income from associates	<u>X</u>	<u>X</u>
Profit before tax	X	X
Income tax expense	<u>(X)</u>	<u>(X)</u>
Profit after tax	X	X
Minority interest	<u>(X)</u>	<u>(X)</u>
Net profit from ordinary activities	X	X
Extraordinary items	<u>X</u>	<u>X</u>
Net profit for the period	<u>X</u>	<u>X</u>

NB: Dividends do not show under IAS but are in the memoranda. Note that this is an illegal way to show dividends under Companies Act.

ABC GROUP – INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006
(illustrating the classification of expenses by nature)

(in thousands of currency units)

		2006	2005
Revenue		x	x
Other operating income	x	x	
Changes in inventories of finished goods and work in progress		(x)	(x)
Work performed by the enterprise and capitalised		x	x
Raw material and consumables used		(x)	(x)
Staff costs		(x)	(x)
Depreciation and amortisation expense	(x)	(x)	
Other operating expenses		(x)	(x)
Profit from operations		x	x
Finance cost		(x)	(x)
Income from associates	<u>x</u>	<u>x</u>	
Profit before tax		x	x
Income tax expense		(x)	(x)
Profit after tax		x	x
Minority interest		(x)	(x)
Net profit or loss from ordinary activities		x	x
Extraordinary items		<u>x</u>	<u>x</u>
Net profit for the period		<u>x</u>	<u>x</u>

ABC GROUP –STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of currency units)

	Share capital	Share premium	Reval-uation reserve	Trans-lation reserve	Accum-ulated profit	Total
Balance at 31 December 2004	x	x	x	(x)	x	x
Changes in accounting policy					(x)	(x)
Restated balance		x	x	x	(x)	x
Surplus on revaluation of properties			x			x
Deficit on revaluation of investments			(x)			(x)
Currency translation differences				(x)		(x)
Net gains and losses not						

recognised in the income statement			x	(x)			x	
Net profit for the period							x	x
Dividends					(x)		(x)	
Issue of share capital	x	x					x	
Balance at 31 December 2005	x	x	x	x	x			x
Deficit on revaluation of properties			(x)				(x)	
Surplus on revaluation of investments			x				x	
Currency translation differences				(x)			(x)	
Net gains and losses not recognised in the income statement			(x)	(x)			(x)	
Net profit for the period							x	x
Dividends					(x)		(x)	
Issue of share capital	x	x					x	
Balance at 31 December 2006	x	x	x	x	x			x

ABC GROUP – STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of currency units)

			2006	2005
Surplus/(deficit) on revaluation of properties		(x)	x	
Surplus/(deficit) on revaluation of investments	x		(x)	
Exchange differences on translation of the financial statements of foreign entities	(x)		(x)	
Net gains not recognised in the income statement		x	x	
Net profit for the period		<u>x</u>	<u>x</u>	
Total recognised gains and losses		<u>x</u>	<u>x</u>	

Effect of changes in accounting policy X

THE UK situation at 2003

At present there are nine Statements of Standard Accounting Practice (SSAP's) in force in the UK. They are as follows:

SSAP 4 Government grants

SSAP 5 VAT

SSAP 9 Stocks and long-term investments

SSAP 13 Research and development

SSAP 17 Post Balance Sheet events

SSAP 19 Investment properties

SSAP 20 Foreign currency translation

SSAP 21 Leases and hire purchase

SSAP 25 Segmental reporting.

There are also 19 Financial Reporting Standards (FRS's) in force in the UK. They are:

FRS 1 Cash flow statements

FRS 2 Subsidiary undertakings

FRS 3 Reporting financial performance

FRS 4 Capital instruments

FRS 5 Reporting substance

FRS 6 Mergers and acquisitions

FRS 7 Fair values in acquisition accounting

FRS 8 Related party disclosures

FRS 9 Associates and joint ventures

FRS 10 Goodwill and intangible assets

FRS 11 Impairment of fixed assets

FRS 12 Provisions

FRS 13 Derivatives

FRS 14 Earnings per share

FRS 15 Tangible fixed assets

FRS 16 Current tax

FRS 17 Retirement benefits

FRS 18 Accounting policies

FRS 19 Deferred tax.

To assist in preparing accounts under International Accounting Standards, it would be useful to note the following similarities with the UK SSAP's and FRS's:

IAS		similar to FRS/SSAP
1	Presentation of Financial Statements	FRS 18
2	Inventories	SSAP 9
7	Cash flow statements	FRS 1
10	Events after the Balance Sheet date	SSAP 17
12	Income taxes	FRS 19
20	Accounting for government grants	SSAP 4
22	Business combinations	FRS 6
26	Accounting for retirement benefit plans	FRS 17
27	Consolidated Financial Statements	FRS 7
32	Financial instruments- disclosure and presentation	FRS 4
36	Impairment of assets	FRS 11
37	Provisions, contingent liabilities and contingent assets	FRS 12
38	Intangible assets	FRS 10
39	Financial instruments – recognition and measurement	FRS 4
40	Investment properties	SSAP 19

It is to be noted that even though all UK accounts for listed companies must be prepared using International Accounting Standards as from January 2005, these accounts will not meet the requirements of the UK Companies Act 1985 and so, for taxation purposes, the usual tax accounts will also have to be prepared until such time as the Companies Act is changed as to its requirements.

In January 2003 the Institute of Chartered Accountants in England and Wales (ICAEW) issued a technical release (Audit 01/03) in which they recommended that auditors should from now on include the following text (or similar text in effect) in their audit reports:

“This report is made solely to the issuer’s members, as a body, in accordance with section 235 of the Companies Act 1895. Our audit work has been undertaken so that we might state to the issuer’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the issuer and the issuer’s members as a body, for our audit work, for this report, or for the opinions we have formed”

It remains to be seen whether cases of negligent misstatement come to court after 2005 when the IAS kicks in and where securities are being admitted to the Official List of the UK Listing Authority and the offering document contains accounts so qualified and whether this ICAEW technical release would be subject to the test of reasonableness imposed by section 2 of the Unfair Contract Terms Act 1977. The only relevant case did not concern negligent mis-statements. The case Metal Distributors_(UK) Ltd v ZCCM

Investment Holdings plc (a company incorporated in the Republic of Zambia) : ZCCM Investment Holdings plc (a company incorporated in the Republic of Zambia) v Metal Distributors (UK) Ltd (2005), was one in which a dispute had been referred to arbitration under arbitration agreements in contracts for the sale of metals, the arbitral tribunal did not have jurisdiction in respect of a counterclaim arising in connection with a wholly unrelated alleged agreement or in connection with alleged negligent misstatement concerning a wholly unrelated transaction.

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