

Illustrating IFRS

Sally Ramage gives us a flavour of what the Report and Accounts prepared using International Standards will look like, and addresses some other technical points

ABC Group – Balance Sheet as at 31 December 2006
(in thousands of currency units)

	2006	2006	2005	2005
ASSETS				
Non-current assets				
Property, Plant & Equipment	x		x	
Goodwill	x		x	
Manufacturing licences	x		x	
Investments in associates	x		x	
Other financial assets	⌘		⌘	
		x		x
Current assets				
Inventories	x		x	
Trade and other receivables	x		x	
Prepayments	x		x	
Cash and cash equivalents	⌘		⌘	
		⌘		⌘
Total assets		⌘		⌘
EQUITY AND LIABILITIES				
Capital and Reserves				
Issued Capital	x		x	
Reserves	x		x	
Accumulated profits/(losses)	⌘		⌘	
		⌘		⌘
Minority interest		x		x
Non-current liabilities				
Interest bearing loans	x		x	
Deferred tax	x		x	
Retirement benefit obligation	⌘		⌘	
		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	⌘		⌘	
		⌘		⌘
Total equity and liabilities		⌘		⌘

From January 2005, UK listed companies will have to produce financial statements using International Standards (IAS and IFRS).

Under IAS, there is only one format for the Balance Sheet, a choice of two for the Income Statement, a choice of two for the Statement of Recognised Gains & Losses and one format for the Cash Flow Statement. Examples of these statements are on these pages, as you can see.

There are areas of similarity between IAS and current UK rules. At present, nine Statements of Standard Accounting Practice (SSAPs) are in force in the UK (4, 5, 9, 13, 17, 18, 20, 21 and 25) and 19 Financial Reporting Standards (FRSs) – FRS 1-19. The text of these can be found on the Accounting Standards Board website (www.frc.org.uk/asb).

To assist in preparing accounts under IAS, it would be useful to note the following similarities:

IAS	SSAP/FRS
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 & 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 & measurement	FRS 4
40 Investment properties	SSAP 19

ABC Group – Income Statement for the Year ended 31 December 2006

(illustrating classification of expenses by function)
(in thousands of currency units)

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

ABC Group – Income Statement for the Year ended 31 December 2006

(illustrating 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 + consumables used	(x)	(x)
Staff costs	(x)	(x)
Depreciation & amortisation expense	(x)	(x)
Other operating expenses	(x)	(x)
Profit from operations	x	x
Finance cost	(x)	(x)
Income from associates	x	x
Profit before tax	x	x
Income tax expense	(x)	(x)
Profit after tax	x	x
Minority interest	(x)	(x)
Net profit/loss from ordinary activities	x	x
Extraordinary items	x	x
Net profit for the period	x	x

ABC Group – Statement of Recognised Gains & 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	x	x
Total recognised gains and losses	x	x
Effect of changes in accounting policy		x

However, even though group accounts for listed UK companies must be prepared using IAS from next January, these won't meet the requirements of the Companies Act 1985, so for tax purposes, the usual tax accounts will have to be prepared.

The audit report: In 2003, the ICAEW issued a technical release (Audit 01/03) in which it recommended that auditors should include the following text (or similar) 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 1985. 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."

We will soon see whether cases of negligent misstatement come to court after IAS kicks in, where securities are being admitted to the Official List of the UK Listing Authority and the offering document contains accounts qualified as above. Will the ICAEW technical release be subject to the test of reasonableness imposed by section 2 of the Unfair Contract Terms Act 1977? ^(a)

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ABC Group – Statement of Changes in Equity for the Year ended 31 December 2006 (in thousands of currency units)

	Share capital	Share premium	Revaluation reserve	Translation reserve	Accumulated 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	x
Surplus on revaluation of properties			x			x
Deficit on revaluation of investments			(x)			(x)
Currency translation differences				(x)		(x)
Net gains & 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 & 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