



Department of Trade and Industry

**MODERNISATION OF ACCOUNTING DIRECTIVES/  
IAS INFRASTRUCTURE:  
CONSULTATION ON IMPLEMENTATION  
  
SMALL BUSINESS SUMMARY**

*What is this all about?*

1. The UK has to implement two pieces of European accounting legislation in national legislation by 1 January 2005. The Government has proposed a number of changes to the Companies Act 1985 to do this, and is asking for views on the proposed changes. The changes will apply to accounts for financial years commencing on or after 1 January 2005. It is intended that similar changes will be made to the legislation governing building societies, limited liability partnerships, and certain banking and insurance undertakings (including certain Industrial and Provident Societies and Friendly Societies).
2. The first piece of European legislation is called the **International Accounting Standards Regulation**. It requires companies governed by the law of a Member State, whose securities are admitted to trading on a regulated market in any Member State in the European Union ("publicly traded companies"), to prepare their consolidated accounts on the basis of International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) that are adopted by the European Commission. In other words, if you are a publicly traded parent company, you must prepare your group accounts using IAS rather than UK accounting standards and the accounting provisions of the Companies Act 1985.
3. The Government will also be extending the use of IAS to the individual accounts of publicly traded parent companies, and to the

individual and consolidated accounts of all other companies (with the exception of charities). However, this will be on a voluntary basis. Such companies will be able to choose whether to switch to IAS or continue to use UK accounting standards and the accounting provisions of the Companies Act 1985.

4. We are proposing to introduce certain rules into the Companies Act 1985 to govern the switch to IAS:

- companies that make this choice will be able to reverse it only in limited circumstances;
- parent companies must in most cases ensure consistency of choice of accounting standards within the group unless there are good reasons against it; and
- a company can choose to use IAS only in its individual accounts or only in its consolidated accounts.

5. The second piece of European legislation is called the **Modernisation Directive**. This updates the existing accounting directives on the annual and consolidated accounts of companies, banks and other financial institutions and insurance undertakings.

6. A number of amendments to the Companies Act 1985 will be made to implement this Directive. In many cases, the amendments must be made in a certain way. But in certain areas, we have options as to how or whether we implement the Directive. We propose to take up two of these options:

- We propose to introduce a requirement that companies must present the items within their balance sheet and profit and loss account in a way that reflects the substance of the reported transaction or arrangement.
- We propose to permit all companies to account for investment property and biological assets (living plants and animals) at fair value, in both their annual and consolidated accounts.

7. We also propose to make an additional amendment regarding the presentation of **dividends**. This is not a requirement of the IAS Regulation or the Modernisation Directive but is designed to allow GB companies to follow current international practice. Rather than paid and

proposed dividends, companies will be required to show in their profit and loss account dividends paid (other than those for which a liability existed at the immediately preceding balance sheet date) or liable to be paid. In the notes to the accounts, companies will be required to show the aggregate amount of any dividends proposed before the date of approval of the accounts, which have not otherwise been shown in the profit and loss account.

*What might it mean for me?*

8. If these proposals are taken forward, you (or your accountant) will have to make certain changes to your accounts. You will need to ensure that the way you present transactions in the formats to your accounts reflects what they are in substance, so that they are presented in the most meaningful way. If you have shareholders to whom you pay dividends, you may have to change the way that you reflect those dividends in the accounts.

9. If you hold investment property or your business involves living plants and animals, you will be able to decide whether you want to account for these using fair value accounting, in line with modern, more transparent accounting practices. But you do not have to use fair value accounting unless you want to.

*What are you asking me to do?*

10. The Government is asking for views on its proposals to:

- put in place certain rules to govern the choice to use IAS;
- make changes to the requirements on how items are presented in the balance sheet and how dividends are shown in accounts,
- permit rather than require all companies to use fair value accounting for investment property and biological assets in their individual and consolidated accounts.

11. It is also asking for views on the draft regulations to implement these proposals and the other aspects of the aspects of the Modernisation Directive.

*Where can I get further information?*

12. The consultation document “Modernisation of Accounting Directives/IAS Infrastructure” gives further information on the background to and details of the proposals, including draft Regulations to implement the proposals. Draft Regulatory Impact Assessments accompany the consultation document. Copies can be obtained free of charge from the DTI Publications Orderline on 0870 150 2500 or from [www.dti.gov.uk/consultations](http://www.dti.gov.uk/consultations).

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