

Financial Reporting Advisory Board Paper

Secretariat paper

FRED 35 Corresponding amounts

Issue:	The impact of the proposals in FRED35 <i>Corresponding amounts</i> on the accounts of central government entities and trading funds.
Impact on guidance:	Chapter 7 will need to be amended to include reference to the FRS issued following the consultation period.
UK GAAP adaptation?	No.
IAS/IFRS compliant?	Yes, to the extent that the FRS complies with IAS1.
IPSAS compliant?	Yes, to the extent that IPSAS1 complies with IAS1.
Impact on budgetary regime?	No.
Recommendation:	That the Board agrees the text in Annex A, subject to a confirmation when the ASB issues the FRS that the text does not need to be changed.
Timing:	2005-06

DETAIL

Background

1. The DTI has issued draft Regulations proposing to remove from the law the requirement to restate corresponding amounts where they are not comparable. The requirement to provide corresponding amounts will remain, and the law will permit restatement where they are not compatible. As a consequence, it will fall to accounting standards to prescribe whether corresponding amounts should be restated.

The proposals in FRED35

2. The proposals in the FRED are:

- corresponding amounts should be shown for items in the primary financial statements and notes to the financial statements;
- where the corresponding amounts are not directly comparable with the amount to be shown in respect of the current financial year, they should be adjusted;
- most of the exemptions from showing corresponding amounts given in the Companies Act should be retained; and
- the requirements of the FRS would apply unless an accounting standard or UITF Abstract permits or requires an alternative treatment.

3. The Regulations are expected to become law in July 2005 and have effect in respect of financial years starting on or after 1 January 2005 and which have not ended before 1 October 2005. It is intended that the FRS would be effective from the same date. This effective date would capture the 2005-06 accounts covered by the requirements of the Government Financial Reporting Manual (FRem).

Particular matters for the comment – not implementing international accounting standards

5. The ASB considered adopting the requirements of international accounting standards for corresponding amounts. These are set out in IAS1 *Presentation of financial statements*, IFRS1 *First time adoption of international financial reporting standards*, and IAS8 *Accounting policies, changes in accounting estimates and errors*. The ASB concluded, however, that it seemed undesirable to implement elements of individual international accounting standards on a piecemeal basis, and decided to issue an FRS that largely reflects the current legal requirements as set out in paragraphs 4 and 58 of Schedule 4 to the Companies Act.

6. With the exception of the exemptions discussed in the following paragraph, this approach means that there would be no practical impact on the disclosure requirements discussed in chapter 7 of the FRem.

Particular matters for comment – removing the exemption relating to loans and other dealings with directors and others

7. Paragraph 58 of Schedule 4 to the Companies Act currently provides exemptions from providing corresponding amounts in the notes to the accounts in respect of details of the accounting treatment of acquisitions, shareholdings in other undertakings, loans and other dealings in favour of directors and others, and fixed assets and reserves and provisions. The ASB proposes to retain these exemptions with the exception of the disclosures relating to loans and other dealings with directors. The reason for requiring disclosure of corresponding amounts for such transactions is mainly one of corporate governance. (For the avoidance of doubt, the presentation of information about fixed assets in *Department Yellow* is UK GAAP compliant.)

8. The FRem (paragraph 7.4.5) requires compliance with Schedule 6 of the Companies Act – which deals with the disclosure of information about the emoluments and other benefits of directors and others and to which paragraph 58 of Schedule 4 refers. A new requirement to provide corresponding

amounts for any loans or other dealings with directors or others (unlikely as that might be in the context of the entities covered by the FReM) should be welcomed as increasing the transparency of reporting in the public sector.

Proposed approach for central government and trading funds

9. I propose that the disclosure requirements of FRED35 should, when finalised in an FRS, apply in full to all entities covered by the requirements of the FReM. There are two interpretations. The first reminds readers that 'directors' has been interpreted earlier in chapter 7. The second reflects the need to reserve the right to determine disclosure requirements in relation to notes specific to government entities. (For example; resource accounts do not disclose corresponding amounts in the note 'Summary of income payable to Consolidated Fund'.)

UK GAAP compliance

10. The proposal is GAAP compliant.

IAS/IFRS compliance

11. The proposals in the FRED are substantially compliant with international accounting standards except that:

- the UK standard will not explicitly require comparative information for narrative and description information required under paragraph 36 of IAS1;
- the UK standard will not permit non-restatement of comparative amounts on first time adoption of certain accounting standards or require disclosures of this as set out in paragraph 36A of IFRS1; and
- the UK standard will not permit non-restatement of comparative amounts where reclassification is impracticable or required disclosure of this as set out in paragraph 38 of IFRS1.
- The standard will provide an exemption not to disclose corresponding amounts for the reconciliation of fixed assets. There is no similar exemption in international accounting standards.

IPSAS compliance

12. The proposals comply with IPSAS to the extent that IPSAS1 and IAS1 are consistent and subject to the differences between FRED35 and IAS1 and IFRS1 noted above.

Proposed amendment to the Government Financial Reporting Manual

13. See Annex A for the proposed amendments to chapter 7 of the FReM.

Impact of amendment on Department Yellow

14. There is no impact on *Department Yellow*.

Summary and recommendation

15. This paper outlines the requirements of a new FRS, as published in FRED35, on corresponding amounts. I propose that it should apply in full to all entities covered by the scope of the FReM. The Board is invited to agree the proposed wording for the FReM in Annex A, subject to confirmation that it does not need to be changed once the ASB issues the FRS.

David Watkins
Secretary

PROPOSED AMENDMENT TO THE GOVERNMENT FINANCIAL REPORTING MANUAL

7.4.2 In addition to the requirements of the Companies Act (see paragraphs 7.4.4 to 7.4.7), this section considers the following accounting standards that include material dealing with formats of, and disclosures in, financial statements:

FRSxx Corresponding amounts (paragraphs 7.4.12 to 7.4.14)

FRS3 Reporting financial performance (paragraphs 7.4.15 to 7.4.18);

SSAP17 Accounting for post balance sheet events (paragraphs 7.4.21 to 7.4.23);

FRS1 Cash flow statements (paragraphs 7.4.24 to 7.4.26);

SSAP25 Segmental reporting (paragraphs 7.4.30 to 7.4.32);

FRS13 Derivatives and other financial instruments (paragraphs 7.4.43 to 7.4.46);
and

FRS8 Related party disclosures (paragraphs 7.4.65 to 7.4.67).

UITF Abstract 9 *Accounting for operations in hyper-inflationary economies* is not likely to be relevant and is not discussed further in this Manual. However, should it become applicable, it should be applied in full.

New text to be inserted as below and subsequent paragraphs to be renumbered..

FRS x Corresponding amounts

Applicability

7.4.12 FRSx applies in full to all entities covered by this Manual.

Objective of FRSx

7.4.13 The objective of FRSx is to require appropriate disclosures of corresponding amounts for items shown in an entity's primary financial statements and notes to the financial statements.

Interpretation of FRSx for the public sector context

7.4.14 In applying FRS3x, entities should note the interpretation of 'directors' in paragraph 7.2.11. Entities should also note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case by case basis and will be shown in the pro-forma *Department Yellow*.