

*Status: Point in time view as at 07/04/2005.*

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## SCHEDULES

### SCHEDULE 4 **U.K.**

#### ACCOUNTING PRACTICE AND RELATED MATTERS

#### PART 2 **U.K.**

#### OTHER PROVISIONS CONNECTED WITH ACCOUNTING PRACTICE

#### *FA 1996*

- 26 (1) Section 85B of FA 1996 (loan relationships: amounts recognised in determining company's profit or loss) is amended as follows.
- (2) In subsection (1)(a) after “profit and loss account” insert “ or income statement ”.
- (3) For subsection (2) substitute—
- “(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in subsection (1) shall be brought into account for the purposes of this Chapter in computing the company's profits and losses for the period to which the statement relates.
- This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.”.
- (4) In subsection (3)—
- (a) in paragraph (a) after “subsection (1)” insert “ or (2) ”, and
- (b) in paragraph (b) for “subsection (1)” substitute “ that subsection ”.
- (5) In subsection (4) after “subsection (1)” insert “ or (2) ”.
- 27 (1) Section 94 of FA 1996 (loan relationships: treatment of indexed gilt-edged securities) shall be deemed not to have been repealed by paragraph 12 of Schedule 10 to FA 2004.
- Paragraph 12(3) of Schedule 25 to FA 2002 (which amended that section) shall also be deemed not to have been repealed by Division (6) of Part 2 of Schedule 42 to FA 2004.
- (2) That section is, instead, amended as follows.
- (3) For subsections (1) to (3A) substitute—
- “(1) In the case of a loan relationship represented by an index-linked gilt-edged security—
- (a) the amounts to be brought into account for the purposes of this Chapter must be determined using fair value accounting, and

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- (b) the following adjustment shall be made in computing those amounts.
- (2) The adjustment shall be made wherever—
- (a) those amounts fall to be determined by reference to the value of the security at two different times, and
- (b) there is a change in the retail prices index between those times.
- (3) The adjustment is made to the carrying value of the security at the earlier time and is to increase or, as the case may be, reduce it by the same percentage as the percentage increase or reduction in the retail prices index between the earlier and the later time.”.
- 28 (1) Section 94A of FA 1996 (loan relationships with embedded derivatives) is amended as follows.
- (2) In subsection (1) for “is permitted or required in accordance with generally accepted accounting practice to treat” substitute “ in accordance with generally accepted accounting practice treats ”.
- (3) Where—
- (a) immediately before the end of its last period of account beginning before 1st January 2005 a company holds one or more assets to which section 92 or 93 of FA 1996 applies, and
- (b) section 94A of FA 1996 does not otherwise apply in relation to those assets in the company's first period of account beginning on or after 1st January 2005, the company may elect that section 94A shall apply in relation to those assets.
- (4) Any such election—
- (a) must be made to the Inland Revenue in writing on or before 31st July 2005,
- (b) must apply to all the assets held by the company as mentioned in subparagraph (3), and
- (c) is irrevocable.
- 29 In section 103 of FA 1996 (interpretation), after subsection (1A) (meaning of “exchange gains or losses”) insert—
- “(1AA) In a case where fair value accounting is used the valuation referred to in subsection (1A) is the valuation that would be given by an amortised cost basis of accounting.”.
- 30 In Schedule 9 to FA 1996 (loan relationships: special computational provisions), after paragraph 14 (debits and credits treated as relating to capital expenditure) insert—
- “Debits and credits recognised in equity or shareholders' funds*
- 14A Where in accordance with generally accepted accounting practice a debit or credit for a period in respect of a loan relationship of a company—
- (a) is recognised in equity or shareholders' funds, and
- (b) is not recognised in any of the statements mentioned in section 85B(1),

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the debit or credit shall be brought into account for that period for the purposes of this Chapter in the same way as a debit or credit that, in accordance with generally accepted accounting practice, is brought into account in determining the company's profit or loss for that period.”.

31 (1) Paragraph 19A of Schedule 9 to FA 1996 (loan relationships: adjustment on change of accounting policy) is amended as follows.

(2) In sub-paragraph (4), after “means” insert “, subject to sub-paragraph (4B), ”.

(3) After that sub-paragraph insert—

“(4A) For the purposes of this paragraph the “carrying value” of an asset or liability includes amounts recognised for accounting purposes in relation to the loan relationship in respect of—

- (a) accrued amounts;
- (b) amounts paid or received in advance;
- (c) impairment losses (including provisions for bad or doubtful debts).

(4B) In determining the profits, gains and losses to be recognised in determining the carrying value of the asset or liability for the purposes of this paragraph, the following provisions—

- (a) section 87(2) (accounting method where parties have a connection),
- (b) section 88A(4) (accounting method where rate of interest is reset),
- (c) section 94 (loan relationships: treatment of indexed gilt-edged securities),
- (d) section 94A(2) (loan relationships with embedded derivatives),
- (e) section 96(2) (special rules for certain gilts),
- (f) section 154(6) (FOTRA securities: certain amounts not to be brought into account), and
- (g) paragraphs 1, 1A, 2, 6, 12 and 18 of this Schedule (special computational provisions),

apply as they apply for the purposes of determining the credits and debits to be brought into account under this Chapter.

(4C) Where—

- (a) a company has ceased to be a party to a loan relationship,
- (b) section 103(6) (credits and debits to be brought into account in respect of profits, gains and losses arising in the cessation period) applied to the cessation, and
- (c) there is a difference between—
  - (i) the amount outstanding in respect of the loan relationship at the end of the earlier period, and
  - (ii) the amount outstanding in respect of the loan relationship at the beginning of the later period,

a debit or credit (as the case may be) corresponding to that difference shall be brought into account for the purposes of this Chapter at the beginning of the later period.

(4D) In sub-paragraph (4C), “the amount outstanding”, in respect of a loan relationship, means so much of the amount recognised as deferred income or deferred loss in the company's balance sheet, in accordance with generally

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accepted accounting practice, in respect of the profits, gains or losses that arose from that relationship or a related transaction in the cessation period (within the meaning of section 103(6)) as has not been represented by credits or debits brought into account under this Chapter.”.

- (4) In sub-paragraph (5) after “sub-paragraph (3)” insert “ or (4C) ”.
- (5) Omit sub-paragraph (6).

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