

SCHEDULE 1

Form and Content of Accounts of Insurance Companies and Groups

PART I

Individual Accounts

Chapter II

Accounting Principles and Rules

Section C

Historical Cost Accounting Rules

Preliminary

30. Subject to paragraphs 20 to 29 above, the amounts to be included in respect of all items shown in a company's accounts shall be determined in accordance with the rules set out in paragraphs 31 to 41 below.

Valuation of assets

General rules

31. Subject to any provision for depreciation or diminution in value made in accordance with paragraph 32 or 33 below, the amount to be included in respect of any asset in the balance sheet format shall be its cost.

32. In the case of any asset included under Assets item B (intangible assets), C.I (land and buildings), F.I. (tangible assets) or F.II (stocks) which has a limited useful economic life, the amount of —

- (a) its cost; or
- (b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its cost less that estimated residual value,

shall be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

33.—(1) This paragraph applies to any asset included under Assets item B (tangible assets), C (investments), F.I (tangible assets) or F.IV (own shares).

(2) Where an asset to which this paragraph applies has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(3) Provisions for diminution in value shall be made in respect of any asset to which this paragraph applies if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it shall be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(4) Where the reasons for which any provision was made in accordance with sub-paragraph (1) or (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary; and any amounts written back in accordance with this sub-paragraph which

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are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

34.—(1) This paragraph applies to assets included under Assets items E.I., II. and III. (debtors) and F.III (cash at bank and in hand) in the balance sheet.

(2) If the net realisable value of an asset to which this paragraph applies is lower than its cost the amount to be included in respect of that asset shall be the net realisable value.

(3) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

Development costs

35.—(1) Notwithstanding that amounts representing “development costs” may be included under Assets item B (intangible assets) in the balance sheet format, an amount may only be included in a company’s balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company’s balance sheet in respect of development costs the following information shall be given in a note to the accounts —

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off; and
- (b) the reasons for capitalising the development costs in question.

Goodwill

36.—(1) The application of paragraphs 31 to 33 above in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

(2) Subject to sub-paragraph (3) below, the amount of the consideration for any goodwill acquired by a company shall be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen shall not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is included as an asset in the company’s balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period shall be disclosed in a note to the accounts.

Miscellaneous and supplemental

Excess of money owed over value received as an asset item

37.—(1) Where the amount repayable on any debt owed by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

- (a) it shall be written off by reasonable amounts each year and must be completely written off before repayment of the debt; and
- (b) if the current amount is not shown as a separate item in the company’s balance sheet it must be disclosed in a note to the accounts.

Assets included at a fixed amount

38.—(1) Subject to the following sub-paragraph, assets which fall to be included under Assets item F.I.(tangible assets) in the balance sheet format may be included at a fixed quantity and value.

- (2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced, where—
 - (a) their overall value is not material to assessing the company's state of affairs; and
 - (b) their quantity, value and composition are not subject to material variation.

Determination of cost

39.—(1) The cost of an asset that has been acquired by the company shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The cost of an asset constructed by the company shall be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the construction of that asset.

- (3) In addition, there may be included in the cost of an asset constructed by the company —
 - (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the construction of that asset, but only to the extent that they relate to the period of construction; and
 - (b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction;

provided, however, in a case within sub-paragraph (b) above, that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

40.—(1) Subject to the qualification mentioned below, the cost of any assets which are fungible assets may be determined by the application of any of the methods mentioned in sub-paragraph (2) below in relation to any such assets of the same class. The method chosen must be one which appears to the directors to be appropriate in the circumstances of the company.

- (2) Those methods are—
 - (a) the method known as “first in, first out” (FIFO);
 - (b) the method known as “last in, first out” (LIFO);
 - (c) a weighted average price; and
 - (d) any other method similar to any of the methods mentioned above.

- (3) Where in the case of any company—
 - (a) the cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph; and
 - (b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph;

the amount of that difference shall be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5) below, for the purposes of sub-paragraph (3)(b) above, the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

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Substitution of original amount where price or cost unknown

41. Where there is no record of the purchase price of any asset acquired by a company or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 39 above, or any such record cannot be obtained without unreasonable expense or delay, its cost shall be taken for the purposes of paragraphs 31 to 36 above to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.