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## SCHEDULES

### SCHEDULE 4

#### FORM AND CONTENT OF COMPANY ACCOUNTS

##### Modifications etc. (not altering text)

- C1** Sch. 4 applied with modifications by S.I. 1985/680, regs. 4–6, **Sch.** and **Income and Corporation Taxes Act 1988** (c. 1, SIF 63:1), s. 176(9), **Sch. 8 para. 19(3)(4)(5)**
- C1** Sch. 4 applied by **Finance (No. 2) Act 1987** (c. 51, SIF 63:1), s. 7, **Sch. 1 para. 19(3)(4)(5)**

### PART II

#### ACCOUNTING PRINCIPLES AND RULES

##### SECTION A

#### ACCOUNTING PRINCIPLES

##### *Preliminary*

- 9 Subject to paragraph 15 below, the amounts to be included in respect of all items shown in a company's accounts shall be determined in accordance with the principles set out in paragraphs 10 to 14.

##### *Accounting principles*

- 10 The company shall be presumed to be carrying on business as a going concern.
- [<sup>F1</sup>11 Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.]

##### Textual Amendments

- F1** Sch. 4 Pt. II para. 11 substituted (subject to the transitional and saving provisions in S.I. 1990/355, arts. 6–9, **Sch. 2**) by **Companies Act 1989** (c. 40, SIF 27), ss. 4(2), 213(2), **Sch. 1 para. 5**

- 12 The amount of any item shall be determined on a prudent basis, and in particular—

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- (a) only profits realised at the balance sheet date shall be included in the profit and loss account; and
- (b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of [<sup>F2</sup>section 233] of this Act.

**Textual Amendments**

**F2** Words substituted by Companies Act 1989 (c. 40, SIF 27), ss. 23, 213(2), **Sch. 10 para. 20** (subject to the transitional and saving provisions in S.I. 1990/355, arts. 6–9, **Sch. 3**)

**Modifications etc. (not altering text)**

**C1** Sch. 4 Pt. II para. 12 (b) applied with modifications by S.I. 1990/2570, **regs. 3(3), 16(1)**

13 All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

14 In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately.

*Departure from the accounting principles*

15 If it appears to the directors of a company that there are special reasons for departing from any of the principles stated above in preparing the company's accounts in respect of any financial year they may do so, but particulars of the departure, the reasons for it and its effect shall be given in a note to the accounts.

**SECTION B**

HISTORICAL COST ACCOUNTING RULES

*Preliminary*

16 Subject to section C of this Part of this Schedule, 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 17 to 28.

*Fixed assets*

*General rules*

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- 17 Subject to any provision for depreciation or diminution in value made in accordance with paragraph 18 or 19 the amount to be included in respect of any fixed asset shall be its purchase price or production cost.
- 18 In the case of any fixed asset which has a limited useful economic life, the amount of—
- (a) its purchase price or production 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 purchase price or production 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.
- 19 (1) Where a fixed asset investment of a description falling to be included under item B.III of either of the balance sheet formats set out in Part I of this Schedule 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.
- (2) Provisions for diminution in value shall be made in respect of any fixed asset which has diminished in value 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.
- (3) 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 are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

*Rules for determining particular fixed asset items*

- 20 (1) Notwithstanding that an item in respect of “development costs” is included under “fixed assets” in the balance sheet formats set out in Part I of this Schedule, 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.
- 21 (1) The application of paragraphs 17 to 19 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

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- (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 shown or 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.

#### *Current assets*

- 22 Subject to paragraph 23, the amount to be included in respect of any current asset shall be its purchase price or production cost.
- 23 (1) If the net realisable value of any current asset is lower than its purchase price or production cost the amount to be included in respect of that asset shall be the net realisable value.
- (2) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (1) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

#### *Miscellaneous and supplementary provisions*

##### *Excess of money owed over value received as an asset item*

- 24 (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*

- 25 (1) Subject to the following sub-paragraph, assets which fall to be included—
  - (a) amongst the fixed assets of a company under the item "tangible assets"; or
  - (b) amongst the current assets of a company under the item "raw materials and consumables"; 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—

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- (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 purchase price or production cost*

- 26 (1) The purchase price of an asset shall be determined by adding to the actual price paid any expenses incidental to its acquisition.
- (2) The production cost of an asset 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 production of that asset.
- (3) In addition, there may be included in the production cost of an asset—
- (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the production of that asset, but only to the extent that they relate to the period of production; and
  - (b) interest on capital borrowed to finance the production of that asset, to the extent that it accrues in respect of the period of production;
- provided, however, in a case within 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.
- (4) In the case of current assets distribution costs may not be included in production costs.
- 27 (1) Subject to the qualification mentioned below, the purchase price or production cost of—
- (a) any assets which fall to be included under any item shown in a company's balance sheet under the general item "stocks"; and
  - (b) any assets which are fungible assets (including investments);
- may be determined by the application of any of the methods mentioned in subparagraph (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 purchase price or production 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.

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- (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 or production cost 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.
- (6) For the purposes of this paragraph, assets of any description shall be regarded as fungible if assets of that description are substantially indistinguishable one from another.

*Substitution of original stated amount where price or cost unknown*

- 28 Where there is no record of the purchase price or production cost of any asset of a company or of any price, expenses or costs relevant for determining its purchase price or production cost in accordance with paragraph 26, or any such record cannot be obtained without unreasonable expense or delay, its purchase price or production cost shall be taken for the purposes of paragraphs 17 to 23 to be the value ascribed to it in the earliest available record of its value made on or after its acquisition or production by the company.

## SECTION C

### ALTERNATIVE ACCOUNTING RULES

#### *Preliminary*

- 29 (1) The rules set out in section B are referred to below in this Schedule as the historical cost accounting rules.
- (2) Those rules, with the omission of paragraphs 16, 21 and 25 to 28, are referred to below in this Part of this Schedule as the depreciation rules; and references below in this Schedule to the historical cost accounting rules do not include the depreciation rules as they apply by virtue of paragraph 32.
- 30 Subject to paragraphs 32 to 34, the amounts to be included in respect of assets of any description mentioned in paragraph 31 may be determined on any basis so mentioned.

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### *Alternative accounting rules*

- 31
- (1) Intangible fixed assets, other than goodwill, may be included at their current cost.
  - (2) Tangible fixed assets may be included at a market value determined as at the date of their last valuation or at their current cost.
  - (3) Investments of any description falling to be included under item B.III of either of the balance sheet formats set out in Part I of this Schedule may be included either—
    - (a) at market value determined as at the date of their last valuation; or
    - (b) at a value determined on any basis which appears to the directors to be appropriate in the circumstances of the company;but in the latter case particulars of the method of valuation adopted and of the reasons for adopting it shall be disclosed in a note to the accounts.
  - (4) Investments of any description falling to be included under item C.III of either of the balance sheet formats set out in Part I of this Schedule may be included at their current cost.
  - (5) Stocks may be included at their current cost.

### *Application of the depreciation rules*

- 32
- (1) Where the value of any asset of a company is determined on any basis mentioned in paragraph 31, that value shall be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its purchase price or production cost or any value previously so determined for that asset; and the depreciation rules shall apply accordingly in relation to any such asset with the substitution for any reference to its purchase price or production cost of a reference to the value most recently determined for that asset on any basis mentioned in paragraph 31.
  - (2) The amount of any provision for depreciation required in the case of any fixed asset by paragraph 18 or 19 as it applies by virtue of sub-paragraph (1) is referred to below in this paragraph as the adjusted amount, and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.
  - (3) Where sub-paragraph (1) applies in the case of any fixed asset the amount of any provision for depreciation in respect of that asset—
    - (a) included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question; or
    - (b) taken into account in stating any item so shown which is required by note (14) of the notes on the profit and loss account formats set out in Part I of this Schedule to be stated after taking into account any necessary provisions for depreciation or diminution in value of assets included under it;may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

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*Additional information to be provided in case of  
departure from historical cost accounting rules*

- 33 (1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined on any basis mentioned in paragraph 31.
- (2) The items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in a note to the accounts.
- (3) In the case of each balance sheet item affected (except stocks) either—
- (a) the comparable amounts determined according to the historical cost accounting rules; or
  - (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item;
- shall be shown separately in the balance sheet or in a note to the accounts.
- (4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined as there mentioned are references to—
- (a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to the historical cost accounting rules; and
  - (b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.

*Revaluation reserve*

- 34 (1) With respect to any determination of the value of an asset of a company on any basis mentioned in paragraph 31, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) shall be credited or (as the case may be) debited to a separate reserve (“the revaluation reserve”).
- (2) The amount of the revaluation reserve shall be shown in the company's balance sheet under a separate sub-heading in the position given for the item “revaluation reserve” in Format 1 or 2 of the balance sheet formats set out in Part I of this Schedule, but need not be shown under that name.
- [<sup>F3</sup>(3) An amount may be transferred -
- [ from the revaluation reserve—
  - <sup>F4</sup>(a) (i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or
  - (ii) on capitalisation,
  - (b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve;]
  - (b) on capitalisation;



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and the revaluation reserve shall be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

- (3A) In [<sup>F5</sup>sub-paragraph (3)(a)(ii)]“capitalisation”, in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.
- (3B) The revaluation reserve shall not be reduced except as mentioned in this paragraph.]
- (4) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve shall be disclosed in a note to the accounts.

#### Textual Amendments

- F3** Sch. 4 Pt. II para. 34(3)–(3B) substituted for sub-paragraph (3) (subject to the transitional and saving provisions in S.I. 1990/355, arts. 6–9) by Companies Act 1989 (c. 40, SIF 27), ss. 4(2), 213(2), **Sch. 1 para. 6**
- F4** Sch. 4 para. 34(3)(a)(b) substituted (2.2.1996) for words by S.I. 1996/189, reg. 14(1), **Sch. 1 para. 4(2)** (with reg. 16)
- F5** Words in Sch. 4 para. 34(3A) substituted (2.2.1996) by S.I. 1996/189, reg. 14(1), **Sch. 1 para. 4(3)** (with reg. 16)

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## SECTION D

### FAIR VALUE ACCOUNTING

#### *Inclusion of financial instruments at fair value*

- 34A (1) Subject to sub-paragraphs (2) to (4), financial instruments (including derivatives) may be included at fair value.
- (2) Sub-paragraph (1) does not apply to financial instruments which constitute liabilities unless—
- (a) they are held as part of a trading portfolio, or
  - (b) they are derivatives.
- (3) Sub-paragraph (1) does not apply to—
- (a) financial instruments (other than derivatives) held to maturity;
  - (b) loans and receivables originated by the company and not held for trading purposes;
  - (c) interests in subsidiary undertakings, associated undertakings and joint ventures;
  - (d) equity instruments issued by the company;
  - (e) contracts for contingent consideration in a business combination;

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(f) other financial instruments with such special characteristics that the instruments, according to generally accepted accounting principles or practice, should be accounted for differently from other financial instruments.

(4) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 34B, sub-paragraph (1) does not apply to that financial instrument.

(5) In this paragraph–

“associated undertaking” has the meaning given by paragraph 20 of Schedule 4A; and

“joint venture” has the meaning given by paragraph 19 of that Schedule.

#### *Determination of fair value*

34B (1) The fair value of a financial instrument is determined in accordance with this paragraph.

(2) If a reliable market can readily be identified for the financial instrument, its fair value is determined by reference to its market value.

(3) If a reliable market cannot readily be identified for the financial instrument but can be identified for its components or for a similar instrument, its fair value is determined by reference to the market value of its components or of the similar instrument.

(4) If neither sub-paragraph (2) nor (3) applies, the fair value of the financial instrument is a value resulting from generally accepted valuation models and techniques.

(5) Any valuation models and techniques used for the purposes of sub-paragraph (4) must ensure a reasonable approximation of the market value.

#### *Inclusion of hedged items at fair value*

34C A company may include any assets and liabilities that qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, at the amount required under that system.

#### *Other assets that may be included at fair value*

34D (1) This paragraph applies to–

(a) investment property, and

(b) living animals and plants,

that, under international accounting standards, may be included in accounts at fair value.

(2) Such investment property and such living animals and plants may be included at fair value, provided that all such investment property or, as the case may be, all

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such living animals and plants are so included where their fair value can reliably be determined.

- (3) In this paragraph, “fair value” means fair value determined in accordance with relevant international accounting standards.

*Accounting for changes in value*

34E (1) This paragraph applies where a financial instrument is valued in accordance with paragraph 34A or 34C or an asset is valued in accordance with paragraph 34D.

- (2) Notwithstanding paragraph 12 of this Schedule, and subject to sub-paragraphs (3) and (4) below, a change in the value of the financial instrument or of the investment property or living animal or plant must be included in the profit and loss account.

- (3) Where—

- (a) the financial instrument accounted for is a hedging instrument under a hedge accounting system that allows some or all of the change in value not to be shown in the profit and loss account, or  
(b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company’s net investment in a foreign entity,

the amount of the change in value must be credited to or (as the case may be) debited from a separate reserve (“the fair value reserve”).

- (4) Where the instrument accounted for—

- (a) is an available for sale financial asset, and  
(b) is not a derivative,

the change in value may be credited to or (as the case may be) debited from the fair value reserve.

*The fair value reserve*

34F (1) The fair value reserve must be adjusted to the extent that the amounts shown in it are no longer necessary for the purposes of paragraph 34E(3) or (4).

- (2) The treatment for taxation purposes of amounts credited or debited to the fair value reserve must be disclosed in a note to the accounts.

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