
Status: Point in time view as at 01/07/1991.

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SCHEDULES

SCHEDULE 2

Section 5(2).

[SCHEDULE 4A TO THE COMPANIES ACT 1985] FORM AND CONTENT OF GROUP ACCOUNTS

General rules

- 1 (1) Group accounts shall comply so far as practicable with the provisions of Schedule 4 as if the undertakings included in the consolidation (“the group”) were a single company.
 - (2) In particular, for the purposes of paragraph 59 of that Schedule (dealings with or interests in group undertakings) as it applies to group accounts—
 - (a) any subsidiary undertakings of the parent company not included in the consolidation shall be treated as subsidiary undertakings of the group, and
 - (b) if the parent company is itself a subsidiary undertaking, the group shall be treated as a subsidiary undertaking of any parent undertaking of that company, and the reference to fellow-subsi-dary undertakings shall be construed accordingly.
 - (3) Where the parent company is treated as an investment company for the purposes of Part V of that Schedule (special provisions for investment companies) the group shall be similarly treated.
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- 2 (1) The consolidated balance sheet and profit and loss account shall incorporate in full the information contained in the individual accounts of the undertakings included in the consolidation, subject to the adjustments authorised or required by the following provisions of this Schedule and to such other adjustments (if any) as may be appropriate in accordance with generally accepted accounting principles or practice.
 - (2) If the financial year of a subsidiary undertaking included in the consolidation differs from that of the parent company, the group accounts shall be made up—
 - (a) from the accounts of the subsidiary undertaking for its financial year last ending before the end of the parent company’s financial year, provided that year ended no more than three months before that of the parent company, or
 - (b) from interim accounts prepared by the subsidiary undertaking as at the end of the parent company’s financial year.
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- 3 (1) Where assets and liabilities to be included in the group accounts have been valued or otherwise determined by undertakings according to accounting rules differing from those used for the group accounts, the values or amounts shall be adjusted so as to accord with the rules used for the group accounts.

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- (2) If it appears to the directors of the parent company that there are special reasons for departing from sub-paragraph (1) they may do so, but particulars of any such departure, the reasons for it and its effect shall be given in a note to the accounts.
- (3) The adjustments referred to in this paragraph need not be made if they are not material for the purpose of giving a true and fair view.
- 4 Any differences of accounting rules as between a parent company's individual accounts for a financial year and its group accounts shall be disclosed in a note to the latter accounts and the reasons for the difference given.
- 5 Amounts which in the particular context of any provision of this Schedule are not material may be disregarded for the purposes of that provision.

Elimination of group transactions

- 6 (1) Debts and claims between undertakings included in the consolidation, and income and expenditure relating to transactions between such undertakings, shall be eliminated in preparing the group accounts.
- (2) Where profits and losses resulting from transactions between undertakings included in the consolidation are included in the book value of assets, they shall be eliminated in preparing the group accounts.
- (3) The elimination required by sub-paragraph (2) may be effected in proportion to the group's interest in the shares of the undertakings.
- (4) Sub-paragraphs (1) and (2) need not be complied with if the amounts concerned are not material for the purpose of giving a true and fair view.

Acquisition and merger accounting

- 7 (1) The following provisions apply where an undertaking becomes a subsidiary undertaking of the parent company.
- (2) That event is referred to in those provisions as an "acquisition", and references to the "undertaking acquired" shall be construed accordingly.
- 8 An acquisition shall be accounted for by the acquisition method of accounting unless the conditions for accounting for it as a merger are met and the merger method of accounting is adopted.
- 9 (1) The acquisition method of accounting is as follows.
- (2) The identifiable assets and liabilities of the undertaking acquired shall be included in the consolidated balance sheet at their fair values as at the date of acquisition.

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In this paragraph the “identifiable” assets or liabilities of the undertaking acquired means the assets or liabilities which are capable of being disposed of or discharged separately, without disposing of a business of the undertaking.

- (3) The income and expenditure of the undertaking acquired shall be brought into the group accounts only as from the date of the acquisition.
- (4) There shall be set off against the acquisition cost of the interest in the shares of the undertaking held by the parent company and its subsidiary undertakings the interest of the parent company and its subsidiary undertakings in the adjusted capital and reserves of the undertaking acquired.

For this purpose—

“the acquisition cost” means the amount of any cash consideration and the fair value of any other consideration, together with such amount (if any) in respect of fees and other expenses of the acquisition as the company may determine, and

“the adjusted capital and reserves” of the undertaking acquired means its capital and reserves at the date of the acquisition after adjusting the identifiable assets and liabilities of the undertaking to fair values as at that date.

- (5) The resulting amount if positive shall be treated as goodwill, and if negative as a negative consolidation difference.
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- 10 (1) The conditions for accounting for an acquisition as a merger are—
 - (a) that at least 90 per cent. of the nominal value of the relevant shares in the undertaking acquired is held by or on behalf of the parent company and its subsidiary undertakings,
 - (b) that the proportion referred to in paragraph (a) was attained pursuant to an arrangement providing for the issue of equity shares by the parent company or one or more of its subsidiary undertakings,
 - (c) that the fair value of any consideration other than the issue of equity shares given pursuant to the arrangement by the parent company and its subsidiary undertakings did not exceed 10 per cent. of the nominal value of the equity shares issued, and
 - (d) that adoption of the merger method of accounting accords with generally accepted accounting principles or practice.
 - (2) The reference in sub-paragraph (1)(a) to the “relevant shares” in an undertaking acquired is to those carrying unrestricted rights to participate both in distributions and in the assets of the undertaking upon liquidation.
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- 11 (1) The merger method of accounting is as follows.
 - (2) The assets and liabilities of the undertaking acquired shall be brought into the group accounts at the figures at which they stand in the undertaking’s accounts, subject to any adjustment authorised or required by this Schedule.

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- (3) The income and expenditure of the undertaking acquired shall be included in the group accounts for the entire financial year, including the period before the acquisition.
- (4) The group accounts shall show corresponding amounts relating to the previous financial year as if the undertaking acquired had been included in the consolidation throughout that year.
- (5) There shall be set off against the aggregate of—
- (a) the appropriate amount in respect of qualifying shares issued by the parent company or its subsidiary undertakings in consideration for the acquisition of shares in the undertaking acquired, and
 - (b) the fair value of any other consideration for the acquisition of shares in the undertaking acquired, determined as at the date when those shares were acquired,
- the nominal value of the issued share capital of the undertaking acquired held by the parent company and its subsidiary undertakings.
- (6) The resulting amount shall be shown as an adjustment to the consolidated reserves.
- (7) In sub-paragraph (5)(a) “qualifying shares” means—
- (a) shares in relation to which section 131 (merger relief) applies, in respect of which the appropriate amount is the nominal value; or
 - (b) shares in relation to which section 132 (relief in respect of group reconstructions) applies, in respect of which the appropriate amount is the nominal value together with any minimum premium value within the meaning of that section.
- 12 (1) Where a group is acquired, paragraphs 9 to 11 apply with the following adaptations.
- (2) References to shares of the undertaking acquired shall be construed as references to shares of the parent undertaking of the group.
- (3) Other references to the undertaking acquired shall be construed as references to the group; and references to the assets and liabilities, income and expenditure and capital and reserves of the undertaking acquired shall be construed as references to the assets and liabilities, income and expenditure and capital and reserves of the group after making the set-offs and other adjustments required by this Schedule in the case of group accounts.
- 13 (1) The following information with respect to acquisitions taking place in the financial year shall be given in a note to the accounts.
- (2) There shall be stated—
- (a) the name of the undertaking acquired or, where a group was acquired, the name of the parent undertaking of that group, and
 - (b) whether the acquisition has been accounted for by the acquisition or the merger method of accounting;
- and in relation to an acquisition which significantly affects the figures shown in the group accounts, the following further information shall be given.

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- (3) The composition and fair value of the consideration for the acquisition given by the parent company and its subsidiary undertakings shall be stated.
 - (4) The profit or loss of the undertaking or group acquired shall be stated—
 - (a) for the period from the beginning of the financial year of the undertaking or, as the case may be, of the parent undertaking of the group, up to the date of the acquisition, and
 - (b) for the previous financial year of that undertaking or parent undertaking;and there shall also be stated the date on which the financial year referred to in paragraph (a) began.
 - (5) Where the acquisition method of accounting has been adopted, the book values immediately prior to the acquisition, and the fair values at the date of acquisition, of each class of assets and liabilities of the undertaking or group acquired shall be stated in tabular form, including a statement of the amount of any goodwill or negative consolidation difference arising on the acquisition, together with an explanation of any significant adjustments made.
 - (6) Where the merger method of accounting has been adopted, an explanation shall be given of any significant adjustments made in relation to the amounts of the assets and liabilities of the undertaking or group acquired, together with a statement of any resulting adjustment to the consolidated reserves (including the re-statement of opening consolidated reserves).
 - (7) In ascertaining for the purposes of sub-paragraph (4), (5) or (6) the profit or loss of a group, the book values and fair values of assets and liabilities of a group or the amount of the assets and liabilities of a group, the set-offs and other adjustments required by this Schedule in the case of group accounts shall be made.
- 14 (1) There shall also be stated in a note to the accounts the cumulative amount of goodwill resulting from acquisitions in that and earlier financial years which has been written off.
- (2) That figure shall be shown net of any goodwill attributable to subsidiary undertakings or businesses disposed of prior to the balance sheet date.
- 15 Where during the financial year there has been a disposal of an undertaking or group which significantly affects the figures shown in the group accounts, there shall be stated in a note to the accounts—
 - (a) the name of that undertaking or, as the case may be, of the parent undertaking of that group, and
 - (b) the extent to which the profit or loss shown in the group accounts is attributable to profit or loss of that undertaking or group.
- 16 The information required by paragraph 13, 14 or 15 above need not be disclosed with respect to an undertaking which—
 - (a) is established under the law of a country outside the United Kingdom, or
 - (b) carries on business outside the United Kingdom,

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if in the opinion of the directors of the parent company the disclosure would be seriously prejudicial to the business of that undertaking or to the business of the parent company or any of its subsidiary undertakings and the Secretary of State agrees that the information should not be disclosed.

Minority interests

- 17 (1) The formats set out in Schedule 4 have effect in relation to group accounts with the following additions.
- (2) In the Balance Sheet Formats a further item headed “Minority interests” shall be added—
- (a) in Format 1, either after item J or at the end (after item K), and
 - (b) in Format 2, under the general heading “LIABILITIES”, between items A and B;
- and under that item shall be shown the amount of capital and reserves attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the parent company and its subsidiary undertakings.
- (3) In the Profit and Loss Account Formats a further item headed “Minority interests” shall be added—
- (a) in Format 1, between items 14 and 15,
 - (b) in Format 2, between items 16 and 17,
 - (c) in Format 3, between items 7 and 8 in both sections A and B, and
 - (d) in Format 4, between items 9 and 10 in both sections A and B;
- and under that item shall be shown the amount of any profit or loss on ordinary activities attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the parent company and its subsidiary undertakings.
- (4) In the Profit and Loss Account Formats a further item headed “Minority interests” shall be added—
- (a) in Format 1, between items 18 and 19,
 - (b) in Format 2, between items 20 and 21,
 - (c) in Format 3, between items 9 and 10 in section A and between items 8 and 9 in section B, and
 - (d) in Format 4, between items 11 and 12 in section A and between items 10 and 11 in section B;
- and under that item shall be shown the amount of any profit or loss on extraordinary activities attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the parent company and its subsidiary undertakings.
- (5) For the purposes of paragraph 3(3) and (4) of Schedule 4 (power to adapt or combine items)—
- (a) the additional item required by sub-paragraph (2) above shall be treated as one to which a letter is assigned, and
 - (b) the additional items required by sub-paragraphs (3) and (4) above shall be treated as ones to which an Arabic number is assigned.

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Interests in subsidiary undertakings excluded from consolidation

- 18 The interest of the group in subsidiary undertakings excluded from consolidation under section 229(4) (undertakings with activities different from those of undertakings included in the consolidation), and the amount of profit or loss attributable to such an interest, shall be shown in the consolidated balance sheet or, as the case may be, in the consolidated profit and loss account by the equity method of accounting (including dealing with any goodwill arising in accordance with paragraphs 17 to 19 and 21 of Schedule 4).

Joint ventures

- 19 (1) Where an undertaking included in the consolidation manages another undertaking jointly with one or more undertakings not included in the consolidation, that other undertaking (“the joint venture”) may, if it is not—
- (a) a body corporate, or
 - (b) a subsidiary undertaking of the parent company,
- be dealt with in the group accounts by the method of proportional consolidation.
- (2) The provisions of this Part relating to the preparation of consolidated accounts apply, with any necessary modifications, to proportional consolidation under this paragraph.

Associated undertakings

- 20 (1) An “associated undertaking” means an undertaking in which an undertaking included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence, and which is not—
- (a) a subsidiary undertaking of the parent company, or
 - (b) a joint venture dealt with in accordance with paragraph 19.
- (2) Where an undertaking holds 20 per cent. or more of the voting rights in another undertaking, it shall be presumed to exercise such an influence over it unless the contrary is shown.
- (3) The voting rights in an undertaking means the rights conferred on shareholders in respect of their shares or, in the case of an undertaking not having a share capital, on members, to vote at general meetings of the undertaking on all, or substantially all, matters.
- (4) The provisions of paragraphs 5 to 11 of Schedule 10A (rights to be taken into account and attribution of rights) apply in determining for the purposes of this paragraph whether an undertaking holds 20 per cent. or more of the voting rights in another undertaking.
- 21 (1) The formats set out in Schedule 4 have effect in relation to group accounts with the following modifications.
- (2) In the Balance Sheet Formats the items headed “Participating interests”, that is—

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- (a) in Format 1, item B.III.3, and
 - (b) In Format 2, item B.III.3 under the heading “ASSETS”,shall be replaced by two items, “Interests in associated undertakings” and “Other participating interests”.
 - (3) In the Profit and Loss Account Formats, the items headed “Income from participating interests”, that is—
 - (a) in Format 1, item 8,
 - (b) in Format 2, item 10,
 - (c) in Format 3, item B.4, and
 - (d) in Format 4, item B.6,shall be replaced by two items, “Income from interests in associated undertakings” and “Income from other participating interests”.
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- (1) The interest of an undertaking in an associated undertaking, and the amount of profit or loss attributable to such an interest, shall be shown by the equity method of accounting (including dealing with any goodwill arising in accordance with paragraphs 17 to 19 and 21 of Schedule 4).
 - (2) Where the associated undertaking is itself a parent undertaking, the net assets and profits or losses to be taken into account are those of the parent and its subsidiary undertakings (after making any consolidation adjustments).
 - (3) The equity method of accounting need not be applied if the amounts in question are not material for the purpose of giving a true and fair view.

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