

## SCHEDULE 4

Regulation 4

### FORM AND CONTENT OF THE ANNUAL ACCOUNTS OF A GROUP ACCOUNTS SOCIETY

#### **General Rules**

**1.—**(1) The consolidated income and expenditure account, the consolidated balance sheet and the consolidated statement of the source and application of funds shall incorporate in full the information contained in the individual accounts of the subsidiary 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 society, 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 society's financial year, provided that year ended no more than three months before that of the society, or
- (b) from interim accounts prepared by the subsidiary undertaking as at the end of the parent society's financial year.

**2.—**(1) Where assets and liabilities to be included in the consolidated balance sheet have been valued or otherwise determined by subsidiary undertakings according to accounting rules differing from those used in the annual accounts of a group accounts society, the values or amounts shall be adjusted so as to accord with the rules used for the annual accounts of the group accounts society.

(2) If it appears to the directors of the society that there are special reasons for departing from the requirements of subparagraph (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 for the society and its subsidiary undertakings as a whole of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

**3.** Any differences of accounting rules as between a society's individual accounts for a financial year and its consolidated accounts shall be disclosed in a note to the accounts and the reasons for the differences given.

**4.** 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**

**5.—**(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 consolidated 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 subparagraph (2) may be effected in proportion to the society's interest in the shares of the undertakings.

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(4) Subparagraphs (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 for the society and its subsidiary undertakings as a whole of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

### **Acquisition accounting**

**6.—**(1) The following provisions apply where an undertaking becomes a subsidiary undertaking of the society.

(2) That event is referred to in those provisions as an “acquisition”, and references to the “undertaking acquired” shall be construed accordingly. 7. An acquisition shall be accounted for by the acquisition method of accounting, unless the conditions for accounting for it as a merger as set out in paragraph 10 of Schedule 4A to the Companies Act 1985(1) are met, in which case the merger method of accounting as detailed in paragraph 11 of the said Schedule 4A shall be employed.

**8.—**(1) The acquisition method of accounting is set out in the following subparagraphs.

(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.

(3) 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.

(4) The income and expenditure of the undertaking acquired shall be brought into the annual accounts of a group accounts society only as from the date of the acquisition.

(5) There shall be set off against the acquisition cost of the interest in the shares of the undertaking held by the society and its subsidiary undertakings the interest of the society and its subsidiary undertakings in the adjusted capital and reserves of the undertaking acquired, and 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 society 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.

(6) The resulting amount shall be treated, if positive, as goodwill, and if negative as a negative consolidation difference.

**9.—**(1) Where a group is acquired paragraph 8 applies with the adaptations set out in subparagraphs (2) and (3).

(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.

**10.—**(1) The following information with respect to acquisitions taking place in the financial year shall be given in a note to the accounts—

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(1) Schedule 4A was inserted into the Companies Act 1985 (1985 c. 6) by sections 1 and 5(2) of and Schedule 2 to the Companies Act 1989 (1989 c. 40) but the relevant provisions are subject to paragraph 7 of Part I of Schedule 2 to the Companies Act 1989 (Commencement No. 4 and Transitional and Saving Provisions) Order 1990 (S.I. 1990/355).

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- (a) the name of the undertaking acquired or, where a group was acquired, the name of the parent undertaking of that group,
  - (b) whether the acquisition was accounted for by the acquisition method or by the merger method of accounting.
- (2) In relation to an acquisition which significantly affects the figures shown in the annual accounts of a group accounts society the following further information shall be given—
- (a) the composition and fair value of the consideration for the acquisition given by the society and its subsidiary undertaking;
  - (b) the profit or loss of the undertaking or group acquired—
    - (i) 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
      - (ii) 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 (i) began;
  - (c) 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, 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;
  - (d) 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 restatement of opening consolidated reserves).
- (3) In ascertaining for the purposes of subparagraph (2)(b), (2)(c) and (2)(d) 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 the annual accounts of a group accounts society shall be made.

**11.—**(1) There shall 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 disposed of prior to the balance sheet date.

**12.** Where during the financial year there has been a disposal of a subsidiary undertaking or group which significantly affects the figures shown in the annual accounts of a group accounts society, 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 subsidiary undertaking or group.
13. The information required by paragraphs 10, 11 or 12 need not be disclosed with respect to a subsidiary undertaking which—
- (a) is established under the law of a country outside the United Kingdom, or
  - (b) carries on business outside the United Kingdom,

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

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14. For the purposes only of paragraphs 9, 10, 12 and 13, a “group” is a “parent undertaking” and its “subsidiary undertakings” as defined by section 258 of the Companies Act 1985, where the parent undertaking is a subsidiary undertaking of the society.

#### **Minority interests**

15.—(1) Under item 15 in Part II of Schedule 1 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 society and its subsidiary undertakings.

(2) Under item 22 in Part II of Schedule 1 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 society and its subsidiary undertakings.

(3) Under Liability item 20 in Part II of Schedule 2 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 society and its subsidiary undertakings. Interests in subsidiary undertakings excluded from consolidation. 16. The interest of the society in subsidiary undertakings excluded from consolidation under Regulation 4(5), and the amount of income or expenditure attributable to such an interest, shall be shown in the consolidated balance sheet or, as the case may be, in the consolidated income and expenditure account by the equity method of accounting (and this shall include dealing with any goodwill arising in accordance with paragraphs 8 to 10 and 12 of Schedule 7).

#### **Foreign Currency Translation**

17.—(1) Any difference between:

- (a) the amount included in the consolidated balance sheet for the previous financial year with respect to the group’s interest in any undertaking included in the consolidation or in any associated undertaking, together with the amount of any transactions undertaken to cover any such interest; and
- (b) the opening amount for the financial year in respect of the group’s interest in such undertakings and in respect of any such transactions

arising as a result of the application of paragraph 31 of Schedule 7 may be credited to (where (a) is less than (b)), or (as the case may be) deducted from (where (a) is greater than (b)), the consolidated general reserve.

(2) Any income and expenditure of subsidiary undertakings and associated undertakings in a foreign currency may be translated for the purposes of the consolidated income and expenditure account at the average rates of exchange prevailing during the financial year.