SCHEDULE 2

BANKING COMPANIES: COMPANIES ACT INDIVIDUAL ACCOUNTS

PART 2

ACCOUNTING PRINCIPLES AND RULES

SECTION B

HISTORICAL COST ACCOUNTING RULES

Preliminary

22. Subject to Sections C and D of this Part of this Schedule, the amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the rules set out in this Section.

Fixed assets

General rules

23.—(1) The amount to be included in respect of any fixed asset is its cost.

(2) This is subject to any provision for depreciation or diminution in value made in accordance with paragraphs 24 to 26.

Rules for depreciation and diminution in value

24. In the case of any fixed asset 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,

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

25.—(1) Where a fixed asset investment to which sub-paragraph (2) 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.

(2) This sub-paragraph applies to fixed asset investments of a description falling to be included under assets item 7 (participating interests) or 8 (shares in group undertakings) in the balance sheet format, or any other holding of securities held as a financial fixed asset.

(3) Provisions for diminution in value must 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 must be reduced accordingly.

(4) Any provisions made under this paragraph which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

26.—(1) Where the reasons for which any provision was made in accordance with paragraph 25 have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

(2) Any amounts written back in accordance with sub-paragraph (1) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

Development costs

27.—(1) Notwithstanding that amounts representing "development costs" may be included under assets item 9 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 must 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

28.—(1) The application of paragraphs 23 to 26 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company must 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 must 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 there must be disclosed in a note to the accounts—

(a) the period chosen for writing off the consideration for that goodwill, and

(b) the reasons for choosing that period.

Treatment of fixed assets

29.—(1) Assets included in assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format must be valued as fixed assets.

(2) Other assets falling to be included in the balance sheet must be valued as fixed assets where they are intended for use on a continuing basis in the company's activities.

Financial fixed assets

30.—(1) Debt securities, including fixed-income securities, held as financial fixed assets must be included in the balance sheet at an amount equal to their maturity value plus any premium, or less any discount, on their purchase, subject to the following provisions of this paragraph.

(2) The amount included in the balance sheet with respect to such securities purchased at a premium must be reduced each financial year on a systematic basis so as to write the premium off over the period to the maturity date of the security and the amounts so written off must be charged to the profit and loss account for the relevant financial years.

(3) The amount included in the balance sheet with respect to such securities purchased at a discount must be increased each financial year on a systematic basis so as to extinguish the discount

over the period to the maturity date of the security and the amounts by which the amount is increased must be credited to the profit and loss account for the relevant years.

(4) The notes to the accounts must disclose the amount of any unamortized premium or discount not extinguished which is included in the balance sheet by virtue of sub-paragraph (1).

(5) For the purposes of this paragraph "premium" means any excess of the amount paid for a security over its maturity value and "discount" means any deficit of the amount paid for a security over its maturity value.

Current assets

31. The amount to be included in respect of loans and advances, debt or other fixed-income securities and equity shares or other variable yield securities not held as financial fixed assets must be their cost, subject to paragraphs 32 and 33.

32.—(1) If the net realisable value of any asset referred to in paragraph 31 is lower than its cost, the amount to be included in respect of that asset is 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 must be written back to the extent that it is no longer necessary.

33.—(1) Subject to paragraph 32, the amount to be included in the balance sheet in respect of transferable securities not held as financial fixed assets may be the higher of their cost or their market value at the balance sheet date.

(2) The difference between the cost of any securities included in the balance sheet at a valuation under sub-paragraph (1) and their market value must be shown (in aggregate) in the notes to the accounts.

Miscellaneous and supplementary provisions

Excess of money owed over value received as an asset item

34.—(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 must 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.

Determination of cost

35.—(1) The cost of an asset that has been acquired by the company is to 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 is to 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 paragraph (b), 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.

36.—(1) The cost of any assets which are fungible assets (including investments), may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class, provided that the method chosen is 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 must be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5), for the purposes of sub-paragraph (3)(b), 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.

Substitution of original stated amount where price or cost unknown

37.—(1) This paragraph applies where—

(a) 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 35, or

(b) any such record cannot be obtained without unreasonable expense or delay.

(2) In such a case, its cost is to be taken, for the purposes of paragraphs 23 to 33, to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.