SCHEDULE 2

BANKING COMPANIES: COMPANIES ACT INDIVIDUAL ACCOUNTS

# PART 2

## ACCOUNTING PRINCIPLES AND RULES

### SECTION A

### ACCOUNTING PRINCIPLES

**Preliminary**

**16.**—(1) The amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the principles set out in this Section.

(2) But if it appears to the company's directors that there are special reasons for departing from any of those principles in preparing the company's accounts in respect of any financial year they may do so, in which case particulars of the departure, the reasons for it and its effect must be given in a note to the accounts.

**Accounting principles**

**17.** The company is presumed to be carrying on business as a going concern.

**18.** Accounting policies must be applied consistently within the same accounts and from one financial year to the next.

**19.** The amount of any item must be determined on a prudent basis, and in particular—

(a) only profits realised at the balance sheet date are to be included in the profit and loss account, and

(b) all liabilities which have arisen in respect of the financial year to which the accounts relate or a previous financial year must 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 accordance with section 414 of the 2006 Act (approval and signing of accounts).

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

**21.** In determining the aggregate amount of any item, the amount of each individual asset or liability that falls to be taken into account must be determined separately.

### 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.

## SECTION C

## ALTERNATIVE ACCOUNTING RULES

### Preliminary

**38.**—(1) The rules set out in Section B are referred to below in this Schedule as the historical cost accounting rules.

(2) Paragraphs 23 to 26 and 30 to 34 are referred to below in this Section 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 41.

**39.** Subject to paragraphs 41 to 43, the amounts to be included in respect of assets of any description mentioned in paragraph 40 may be determined on any basis so mentioned.

### Alternative accounting rules

**40.**—(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 assets items 7 (participating interests) or 8 (shares in group undertakings) of the balance sheet format and any other securities held as financial fixed assets may be included either—

(a) at a 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 must be disclosed in a note to the accounts.

(4) Securities of any description not held as financial fixed assets (if not valued in accordance with paragraph 33) may be included at their current cost.

**Application of the depreciation rules**

**41.**—(1) Where the value of any asset of a company is determined in accordance with paragraph 40, that value must 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 cost or any value previously so determined for that asset.

The depreciation rules apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset in accordance with paragraph 40.

(2) The amount of any provision for depreciation required in the case of any fixed asset by paragraphs 24 to 26 as they apply 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 any of those paragraphs 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 included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question 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.

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

**42.**—(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 in accordance with paragraph 40.

(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 must be disclosed in a note to the accounts.

(3) In the case of each balance sheet item affected 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,

must be shown separately in the balance sheet or in a note to the accounts.

(4) In sub-paragraph (3), 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**

**43.**—(1) With respect to any determination of the value of an asset of a company in accordance with paragraph 40, 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) must be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

(2) The amount of the revaluation reserve must be shown in the company's balance sheet under liabilities item 11 in the balance sheet format, but need not be shown under that name.

(3) An amount may be transferred—

(a) from the revaluation reserve—

(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.

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

(4) In 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.

(5) The revaluation reserve must not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

SECTION D

FAIR VALUE ACCOUNTING

**Inclusion of financial instruments at fair value**

**44.**—(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

(2) Sub-paragraph (1) does not apply to financial instruments that constitute liabilities unless—

(a) they are held as part of a trading portfolio,

(b) they are derivatives, or

(c) they are financial instruments falling within sub-paragraph (4).

(3) Unless they are financial instruments falling within sub-paragraph (4), 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, or

(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) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 45, sub-paragraph (1) does not apply to that financial instrument.

(6) In this paragraph—

"associated undertaking" has the meaning given by paragraph 19 of Schedule 6 to these Regulations;

"joint venture" has the meaning given by paragraph 18 of that Schedule.

### Determination of fair value

**45.**—(1) The fair value of a financial instrument is its value 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.

### Hedged items

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

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

**47.**—(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 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

**48.**—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 44 or 46 or an asset is valued in accordance with paragraph 47.

(2) Notwithstanding paragraph 19 in this Part of this Schedule, and subject to sub-paragraphs (3) and (4), 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

**49.**—(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 48(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.

### Assets and liabilities denominated in foreign currencies

**50.**—(1) Subject to the following sub-paragraphs, amounts to be included in respect of assets and liabilities denominated in foreign currencies must be in sterling (or the currency in which the accounts are drawn up) after translation at an appropriate spot rate of exchange prevailing at the balance sheet date.

(2) An appropriate rate of exchange prevailing on the date of purchase may however be used for assets held as financial fixed assets and assets to be included under assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format, if they are not covered or not specifically covered in either the spot or forward currency markets.

(3) An appropriate spot rate of exchange prevailing at the balance sheet date must be used for translating uncompleted spot exchange transactions.

(4) An appropriate forward rate of exchange prevailing at the balance sheet date must be used for translating uncompleted forward exchange transactions.

(5) This paragraph does not apply to any assets or liabilities held, or any transactions entered into, for hedging purposes or to any assets or liabilities which are themselves hedged.

**51.**—(1) Subject to sub-paragraph (2), any difference between the amount to be included in respect of an asset or liability under paragraph 50 and the book value, after translation into sterling (or the currency in which the accounts are drawn up) at an appropriate rate, of that asset or liability must be credited or, as the case may be, debited to the profit and loss account.

(2) In the case, however, of assets held as financial fixed assets, of assets to be included under assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format and of transactions undertaken to cover such assets, any such difference may be deducted from or credited to any non-distributable reserve available for the purpose.