Draft Statement of Recommended Practice: Accounting for Further and Higher Education

March 2003

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Introduction

Background

1 Further and higher education institutions are complex organisations whose main activities are teaching and research. They are autonomous bodies established by royal charter, act of parliament or other instrument. Teaching is provided for students from the United Kingdom, the European Union (EU) and for other nationalities across the whole range of academic and vocational subjects. As well as full-time and part-time education, institutions also provide special and short courses for vocational and non-vocational continuing education. Research is carried out within most higher education institutions.

2 In addition to teaching and research, institutions frequently have a range of other distinctive activities, which are incidental to their main activities, including the provision of student residences, catering and other services. Many have established limited liability companies, consortia, partnerships or joint ventures to carry out particular kinds of collaborative and commissioned research and other income-generating and commercial activities.

Funding

3 Institutions receive their funding from three main sources:

a public funds in the form of grants direct from the responsible Funding Councils; student tuition fees paid from public funds; research grants and contracts awarded by research councils, the EU and government departments; in certain cases, funding is received directly from government departments or agencies; many institutions also receive significant funds from the EU for the provision of education, training and related services;

b the provision of services, contract and other research and consultancy, conference and accommodation facilities, staff/student residences and catering, and tuition fees paid wholly or partly by students or employers; and

c bequests, endowments and donations which may be for general purposes, or restricted by legally binding conditions to specific purposes.

4 Income falls into two broad categories:

a income which can be applied at the discretion of the institution to any of its activities – such income is referred to as 'general income' and examples include recurrent grants from the Funding Councils (which may have some restrictions), student tuition fees and income earned by the institution from its activities; and

b income which is for specific purposes – such purposes being designated by the grant-making body or donor under a specific agreement or contract, and which can only be applied for those specific purposes. Examples include the income from specific endowments, from research grants and grants for specific purposes from Funding Councils. Such income is only credited to the income and expenditure account when the conditions attaching to its receipt have been met, such as incurring the appropriate expenditure, including expenditure on indirect (overhead) costs.

Objectives of an institution's Reports and Financial Statements

5 The objectives of published Reports and Financial Statements (as defined in paragraph 8) are governed by the needs of users and potential users. Published Reports and Financial Statements should give a true and fair view of the institution's financial performance and financial position so that they may be of use, and relied upon, by users (or potential users) of the information contained therein. Reports should be consistent with the Financial Statements.

6 The users, to varying degrees, of an institution's Reports and Financial Statements are:

a the governing body of the institution;

b Funding Councils;

c government departments and parliament;

d the institution's employees (past, present and future);

e the institution's students (past, present and future);

f lenders and creditors;

g other institutions, schools and industry;

h grant-awarding bodies, donors and benefactors; and

i the general public.

Many of these users will also be interested in the non-financial reports of institutions.

7 These user groups may have differing needs in detail, but certain key elements, including the need for clarity, comparability and accountability, are common to all. Therefore, the main objectives of the Reports and Financial Statements are to provide the following information:

a a true and fair view of the financial position of the institution at the balance sheet date and of the income and expenditure and cash flows for the period then ended;

b an explanation of how the institution is governed and managed; and

c a suitable analysis of:

- income from all sources within the period of the accounts;
- expenditure on all activities within the period of the accounts;
- assets and liabilities of the institution, classified in suitable form;
- any known or probable circumstances which might significantly affect its financial position; and
- how the institution is performing financially, including the adequacy of the working capital, its solvency (or insolvency), and its investment performance.

Definition of Terms

8 The definitions which follow have been adopted for the purposes of this statement. The definitions are necessarily summarised and where a Financial Reporting Standard (FRS) or Statement of Standard Accounting Practice (SSAP) is referred to, this should be read in order to gain a full understanding of the context of the definitions.

Accounting Policies are defined in FRS 18 *Accounting Policies* as those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accounts comprise the income and expenditure account (including footnotes), the balance sheet, the cash flow statement and the statement of total recognised gains and losses.

Assets are defined in FRS 5 *Substance of Transactions* as the rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.

Associates are defined in FRS 9 *Associates and Joint Ventures* as an entity (other than a Subsidiary) in which another entity (the investor) has a participating interest, and over whose operating and financial policies the investor exercises a significant influence.

Capital grants are those grants that have been specifically identified by the grantor to be used for the purchase, construction or development of assets.

Contingent Liability is defined in FRS 12 *Provisions, Contingent Liabilities and Assets* as either: a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required or because the amount cannot be measured reliably.

Current Asset Investments are those investments other than Fixed Asset Investments or Endowment Asset Investments.

Deferred Capital Grants are those capital grants where an asset purchased with such a grant has been capitalised. The Deferred Capital Grant related to the asset is included in the balance sheet and released to the income and expenditure account over the life of the asset to which it relates.

Endowment Assets are those assets held for endowment funds where the terms of the endowment require the income and/or the capital of the funds to be used for specific or general purposes of the institution.

Estimation Techniques are defined in FRS 18 as the methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to shareholders' funds. Estimation techniques implement the measurement aspects of accounting policies.

Financial Statements comprise the accounts, the statement of accounting policies and the notes to the accounts.

Fixed Asset Investments are those investments intended to be held for use on a continuing basis. An investment should be classified as a fixed asset only where an intention to hold the investment for the long term can clearly be demonstrated, or where there are restrictions regarding the investor's ability to dispose of the investment.

Funding Councils refers to the non-departmental public bodies whose role is to distribute public funds to further education and higher education institutions. They include the Higher Education Funding Councils for England, Scotland and Wales, the Learning and Skills Council, the Scottish Further Education Funding Council, the National Council for Education and Training for Wales and the Teacher Training Agency. They also include the Department for Education, Employment and Learning, Northern Ireland.

FRS refers to a Financial Reporting Standard published by the Accounting Standards Board in the United Kingdom.

General Endowments are bequests and gifts where the use of the capital and income, or only the income, is for the general purposes of the institution.

General Income refers to income that can be applied to any activity of the institution at the discretion of the institution. Examples of such income are Funding Council recurrent grants (which may have some restrictions), tuition fees and income from general endowments.

Group refers to the institution and all its associates and Subsidiary Undertakings.

Joint Venture is defined in FRS 9 as an entity in which the reporting entity holds an interest and is jointly controlled by the reporting entity and one or more other ventures under a contractual arrangement.

Liabilities are defined in FRS 5 as an entity's obligations to transfer economic benefits as a result of past transactions or events.

Materiality is an expression of the relative significance or importance of a particular matter in the context of the Financial Statements as a whole. A matter is material if its omission would reasonably influence the decisions of the users of the institution's Reports and Financial Statements. Likewise, a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the Financial Statements or of individual items included in them. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects.

Provision is defined in FRS 12 as a liability of uncertain timing or amount.

Related Party Transaction is defined in FRS 8 *Related Party Transactions* as the transfer of assets or liabilities, or the performance of services by, to, or for a related party irrespective of whether a price is charged.

Reports and Financial Statements comprise the Financial Statements, a statement of corporate governance, a statement of the responsibilities of the council, board of governors or institutional equivalent, the auditor's reports and the treasurer's report or members' report (or institutional equivalent), (in addition, for English further education institutions, a statement of the system of internal financial control).

Revaluation Reserve is the sum of unrealised amounts arising from the revaluation of the institution's Tangible Fixed Assets.

Specific Endowments are bequests and gifts where the use of the capital and income, or only the income, is for a specific purpose or activity so designated by the donor and which can only be used for that purpose or activity.

Specific Income is income that can only be applied to a specific purpose or activity so designated by the grantor or donor. Examples of such income are Funding Council grants for specific purposes, research grants and some research contracts and income from specific endowments.

SSAP refers to a Statement of Standard Accounting Practice published by the Accounting Standards Board in the United Kingdom.

Subsidiary Undertaking is analogous to the definition in the Companies Act 1985 (as amended by the Companies Act 1989) and FRS 2 *Subsidiary Undertakings* and is a body corporate or partnership or unincorporated association carrying on a trade or business with or without a view to profit.

Tangible Fixed Assets are defined in FRS 15 *Tangible Fixed Assets* as those assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities.

UITF Abstracts refer to the Urgent Issues Task Force Abstracts, which are issued by the Accounting Standards Board in the United Kingdom.

Statement of Recommended Practice (SORP)

Scope

9 The recommendations in this statement are intended to be applicable to all further and higher education institutions in the United Kingdom. They need not be applied to immaterial items.

10 Every institution should prepare, on an annual basis, Reports and Financial Statements as defined in paragraph 8.

Basis of accounting

11 The Financial Statements should be prepared in accordance with applicable accounting standards on an accruals basis. Income from specific endowments or other earmarked sources of income is accounted for in the income and expenditure account in line with the associated expenditure, as the institution has no right to the income until it has complied with the conditions attaching to the specific endowment or earmarked source by incurring the qualifying expenditure.

12 Institutions should adopt Accounting Policies that are judged to be the most appropriate for giving a true and fair view and should keep such policies under review.

13 The Financial Statements should be prepared using the historical cost convention as modified for the revaluation of certain assets. Where assets have been revalued, a note of historical cost surpluses and deficits should follow the income and expenditure account (as set out in FRS 3 *Reporting Financial Performance*). Financial Statements should contain a positive statement that they are prepared in accordance with applicable accounting standards, and this SORP, and any material departures from such standards should be clearly explained in the Financial Statements.

14 The Financial Statements should give a true and fair view of the state of affairs of the institution at the balance sheet date and of its results and total recognised gains and losses and cash flows for the year then ended, whether channelled through the institution as an entity or through one or more Associates or Subsidiary Undertakings.

15 All institutions must comply with the financial reporting requirements contained in any UK legislation relevant to their constitution. In particular, the relevant Funding Councils may issue an accounts direction. Compliance with such an accounts direction is a condition of grant. Where an institution is constituted as a company, the Financial Statements must be properly prepared in accordance with the provisions of the Companies Act. Where a separately established Subsidiary Undertaking is a charity, that Subsidiary's Financial Statements

should comply with the Statement of Recommended Practice *Accounting and Reporting for Charities*.

Consolidation

16 Where an institution has associate or Subsidiary Undertakings, the Financial Statements should be prepared on a consolidated basis in accordance with FRS 2 and FRS 9. The Financial Statements of all Subsidiary Undertakings to be used in preparing the consolidated Financial Statements should be prepared, wherever practicable, to the same financial year-end and for the same accounting period as the parent institution.

17 Where an Associate or Subsidiary Undertaking's financial year does not coincide with that of the institution, interim Financial Statements should be prepared to the same date as the parent institution. Where an Associate or Subsidiary undertaking's financial year does not coincide with that of the institution but ends within three months before the parent institution's year end, and it is not practicable to use interim Financial Statements, the Financial Statements of the Subsidiary Undertaking for its last financial year should be used. In such cases, material changes in the intervening period should be taken into account by adjustments in the preparation of the consolidated Financial Statements.

18 The Financial Statements must disclose, for each Associate or Subsidiary Undertaking which is included in the consolidated Financial Statements on the basis of information prepared to a different date, or for a different accounting period from that of the parent Undertaking:

- a the name of the Associate or Subsidiary Undertaking;
- b the accounting date;
- c the reason for using a different accounting date; and
- d the accounting period, if it is of a different length from that of the institution.

19 Where an Associate or Subsidiary Undertaking is excluded from consolidation, the notes to the accounts must disclose:

- a the name of the excluded Associate or Subsidiary Undertaking;

b any qualification contained in the auditors' report on the Associate or Subsidiary Undertaking's Financial Statements for the relevant financial year;

c the aggregate amount of the Associate's or Subsidiary Undertaking's capital and reserves at the end of its relevant financial year and its profit or loss for the period, unless the Subsidiary Undertaking is included in the consolidated Financial Statements using the equity method;

d the reasons why the Associate or Subsidiary Undertaking is not dealt with in the consolidated Financial Statements;

e details of balances and transactions between the excluded Associate or Subsidiary Undertaking(s) and the rest of the Group;

f details of dividends and investment write-downs in cases where equity accounting has not been applied;

g separate accounts for Associate or Subsidiary Undertakings excluded under the ‘different activities’ clause of FRS 2; and

h any guarantees or indemnities given by the Group or a member of it in respect of the Associate or Subsidiary Undertaking.

20 The circumstances under which an Associate or Subsidiary Undertaking may not be consolidated are set out in paragraph 49 below.

Accounting for Tangible Fixed Assets

21 Land and buildings should be capitalised and should be included in the balance sheet at cost or valuation. All institutions will by now have adopted one of the three options available under the transitional arrangements of FRS 15 *Tangible Fixed Assets*. One option was to adopt a revaluation policy, the remaining two dealt with alternatives to not adopting a revaluation policy. Accounting treatment for each option is summarised below.

22 Where an institution adopted a policy of revaluation, paragraph 42 of FRS 15 requires that revaluations should be applied to entire classes of Tangible Fixed Assets, but need not be applied to all Tangible Fixed Assets. This means that where an individual Tangible Fixed Asset is revalued, then all other Tangible Fixed Assets in the same class must be revalued. Classes of Tangible Fixed Asset will normally follow the balance sheet notes, but may be subdivided according to definitions arising from an institution's operations where the following requirements must be met:

a increases in value should be taken to the Revaluation Reserve except to the extent that they reverse revaluation losses on the same asset that were previously recognised in the income and expenditure account, in which case they should be recognised in the income and expenditure account;

b decreases in value should be first set against any previous revaluation surplus and any balance should be taken to the income and expenditure account;

c valuations must be updated on a regular basis with a professional valuation being undertaken at least every five years; and

d an interim valuation should be carried out in the third year after a full valuation by a qualified valuer, who may be either internal or external to the institution.

23 Where the institution did not adopt a policy of revaluation, it had two options:

a to restate Tangible Fixed Assets to historical costs (less depreciation), as a change of accounting policy; and

b to hold Tangible Fixed Assets at their book amounts, subject to the requirement to test them for impairment if an indication exists that impairment may have occurred in accordance with FRS 11 *Impairment of Fixed Assets and Goodwill*.

24 Where the institution had opted to hold Tangible Fixed Assets at their book amounts, disclosure was required that the institution had taken advantage of the transitional provisions of FRS 15, the date of the last valuation and that the valuation had not been updated. Institutions that took advantage of this option should disclose:

a the amount of fixed assets held at valuation;

b the years of valuation and the basis adopted;

c the historical cost equivalents for the revalued assets;

d the amount of a revaluation reserve and any transfers from that reserve to realised reserves;

e a note of historical cost profits as required by FRS 3; and

f disclosure of historical cost and depreciation – paragraph 74(a)(iv) of FRS 15.

These disclosure requirements can be satisfied by the note of historical cost surpluses which follows the income and expenditure account, and by additional text disclosures within the notes on Tangible Fixed Assets and the Revaluation Reserve.

25 Land held specifically for development, investment and sale should be treated as a current asset and carried at the lower of cost and net realisable value.

26 Tangible Fixed Assets surplus to requirements should be held at the lower of cost and net realisable value. Net realisable value will normally be the open market value, with expected directly attributable selling costs deducted if material.

27 Where an institution has Tangible Fixed Assets that are surplus to requirements in the long term, these should be tested for impairment under the provisions of FRS 11. Where it can be shown that an impairment has occurred, these assets should be written down in value.

28 Where an institution is committed to the disposal of a Tangible Fixed Asset, such assets should be carried at cost or valuation, or written down to their net realisable value, whichever is lower. Where all the following criteria are met, such assets should be transferred from fixed assets to current assets (at their existing carrying value subject to impairment as noted above):

a the asset is not being replaced;

b there is a commitment to sell the asset (for example, it is being advertised for sale); and

c the asset is no longer in use.

29 Tangible Fixed Assets under construction, being enhanced or planned for disposal, should be treated as set out in FRS 15:

a costs incurred in relation to a Tangible Fixed Asset after its initial purchase or production should be capitalised to the extent that they increase the expected future benefits to the institution from the existing Tangible Fixed Asset beyond its previously assessed standard of performance; and

b the cost of any such enhancements should be added to the gross carrying amount of the Tangible Fixed Asset concerned.

30 Equipment and furniture should be accounted for as Tangible Fixed Assets, subject to a reasonable materiality test. Such items should be included in the balance sheet at cost or, in respect of donated items, at valuation at the date of receipt.

31 The gain or loss arising from the disposal of Tangible Fixed Assets, calculated in compliance with FRS 3 on the carrying value immediately prior to disposal, except for any proceeds requiring to be surrendered under the financial memorandum between the institution and the relevant Funding Council, should be included in the income and expenditure account and, if material, disclosed separately in line with accounting standards. Any proceeds which an institution is required to surrender should be specifically identified in the Financial Statements.

32 Depreciation of all Tangible Fixed Assets should be provided for in accordance with FRS 15, which defines depreciation as ‘the measure of the cost or revalued amount of the economic benefits of the Tangible Fixed Assets that have been consumed during the period’. Exceptions to charging depreciation may only arise if either the Asset is freehold land, or if neither the charge nor the accumulated depreciation are material (but it should be noted that in the latter case, this should be subject to an annual impairment review in accordance with FRS 11).

33 Depreciation should be based on the amount at which the Tangible Fixed Asset is included in the balance sheet, except for freehold land which should not be depreciated. In establishing the estimated useful life of an Asset, the level of maintenance expenditure (which may have an effect on the asset life and consequent rate of depreciation) should be considered. A depreciable (that is, wasting) Asset’s anticipated useful economic life must be reviewed annually and the accumulated and future depreciation adjusted in accordance with FRS 15. FRS 11 reviews for possible impairment are required annually where assets (except freehold land) are considered if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. FRS 11 gives indicators of impairment.

34 FRS 15 requires that where a Tangible Fixed Asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. For example, a building should be split for depreciation purposes between the structure of the building and items within the structure, such as general fittings. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the income and expenditure account over the periods in which they are consumed. (In the past a similar effect was achieved through the use of a long-term maintenance provision; FRS 12 prohibited that practice because the provision did not represent a liability to an external party.)

Accounting for inherited assets/liabilities

35 Where an institution has inherited Tangible Fixed Assets from a local authority, these inherited assets should be included in the balance sheet at valuation on the date of receipt. Future valuations should be in line with the policy adopted by the institution in respect of FRS 15. In certain exceptional circumstances, it may not be possible to obtain a value for inherited or donated assets. FRS 15 (paragraph 18) permits an asset to be excluded from capitalisation either where no reliable cost or valuation can be obtained, or where the cost of obtaining a valuation is greater than the benefit to the users of the Financial Statements.

36 The policy must be applied on an asset-by-asset basis. Any inherited loans should be treated as a creditor, with the portion falling due within one year being treated as a current liability and the remainder as a creditor falling due after more than one year. The difference between the valuation and the outstanding loan(s) should be taken to the Revaluation Reserve. Where inherited loan costs are reimbursed by an institution's Funding Council, the interest element should be taken to the income and expenditure account within 'Funding Council grants', while the capital element should be taken directly to the Revaluation Reserve in the balance sheet.

Accounting for investments

37 Listed investments held as Fixed Assets or Endowment Assets should be shown at market value. Investments such as heritable property should be shown at open market value. Investments in Subsidiary Undertakings should be shown at cost, subject to a review for impairment, in the institution's balance sheet; the Subsidiary Undertaking should be included in the consolidated balance sheet in accordance with paragraphs 16–19 above. Investments in Associates, as defined in FRS 9, should be shown in the consolidated balance sheet at attributable share of net assets (see FRS 9, paragraph 26). Current Asset Investments, which may include listed investments, should be shown at the lower of cost and net realisable value. The market value of listed investments held as Current Asset Investments should be disclosed.

38 Subject to the requirements to account for specific income in line with the associated expenditure, as described in paragraph 4(b), all income from investments and capital increases/decreases arising on realisation or revaluation of investments should be treated as follows:

a income from Fixed Asset Investments, general Endowment Assets and Current Asset Investments should be brought into the income and expenditure account in full. However, where income for specific purposes follows the principle described in paragraph 4(b), it should only be brought in to the extent that appropriate expenditure has been incurred;

b increases in value arising on the revaluation of Fixed Asset Investments should be carried to the Revaluation Reserve via the statement of total recognised gains and losses; a diminution in value should be charged to the income and expenditure account to the extent that it is not covered by a previous revaluation surplus;

c increases/decreases in value arising on the revaluation of Endowment Assets should be added to, or subtracted from, the funds concerned; and

d increases/decreases in the carrying value of Current Asset Investments (as set out in paragraph 33) should be brought into the income and expenditure account.

Accounting for endowments

39 The amounts shown in the balance sheet as endowments and Endowment Assets must be identical.

Accounting for capital grants

40 Where an institution receives a grant to finance, or partly finance, the purchase, construction or development of an Asset, and the Asset is capitalised, the grant should be credited to Deferred Capital Grants and an annual transfer made to the income and expenditure account over the useful economic life of the Asset in proportion to the depreciation charge on the Asset for which the grant was awarded.

Format of accounts

41 The income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses must follow the formats set out in the Appendix.

Notes to the accounts

42 The notes to the accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially.

Date from which effective

43 The provisions of this statement should be adopted for accounting periods ending on 31 July 2003 and thereafter.

Explanatory Notes

Interaction with charities SORP

44 The Statement of Recommended Practice (SORP) *Accounting and Reporting for Charities* (SORP) states that where a separate SORP exists for a particular class of charities, that separate SORP should be used in preparing the financial statements of such charities. The nature of the further and higher education sector has special financial and reporting issues that are different from other organisations that have charitable status, and therefore the requirements of the SORP *Accounting for Further and Higher Education* should take precedence over the SORP *Accounting and Reporting for Charities.*

Consolidation

45 Where an institution has Subsidiary Undertakings, consolidated Financial Statements should be prepared as defined in FRS 2 and, where relevant, the Companies Act.

46 An Undertaking is a Subsidiary of a parent Undertaking where the parent:

a holds a majority of voting rights; or

b is a member of the Undertaking and can appoint or remove directors having the majority of the votes on the board; or

c has a right to exercise a dominant influence over the Undertaking by virtue of provisions either in its memorandum or articles or in a ‘control contract’; or

d is a member of the Undertaking and operates control via an agreement with other shareholders; or e owns a participating interest in the Undertaking and actually exercises dominant influence or operates unified management.

47 Further guidance on the definition of Subsidiary Undertakings is given in FRS 2, in particular paragraph 7 of the FRS. In addition, consideration should be given regarding whether the Undertaking is a quasi-Subsidiary in terms of FRS 5, or an Associate or Joint Venture as defined in FRS 9.

48 Undertakings may be excluded from consolidation where inclusion, of all Undertakings taken together, is not material.

49 FRS 2 requires that they must be excluded if:

a the institution's rights over the Assets, or the management, are severely restricted; or

b the activities of a Subsidiary are so different and the circumstances so unusual that inclusion would not be compatible with the 'true and fair' requirement; or

c subsequent resale of the Subsidiary Undertaking was intended at the time of acquisition and the Subsidiary Undertaking has not previously been included in the consolidated Financial Statements.

50 Where Subsidiary Undertakings are excluded, FRS 2 sets out the differing treatments to be adopted for each category of Subsidiary Undertaking to be excluded from the consolidation.

51 These circumstances are amplified in the Companies Act and FRS 2 and FRS 9 and are regarded as a statement of the current 'best accounting practice' in respect of consolidation.

52 Each institution will need to clarify its relationship with its students' union in order to determine whether, in the light of all relevant legislation and accounting standards, the degree of control exercised is sufficient to require consolidation.

Accounting for Tangible Fixed Assets

53 Institutions should conform to accounting standards for Tangible Fixed Assets, revaluations and impairments. Of particular relevance are SSAP 4 *Accounting for Government Grants*, FRS 15 *Tangible Fixed Assets* and FRS 11 *Impairment of Fixed Assets and Goodwill*. All the explanatory notes relating to these standards are likely to be relevant.

54 For valuing land and buildings, the Royal Institute of Chartered Surveyors has issued guidance notes on the basis of asset valuation which set out the governing principles on the basis of valuation. In normal circumstances (for example, unless the property is accounted for as an investment asset), the standard basis is open market value for existing use purposes. The notes recognise, however, that in certain circumstances such a valuation will not be easy to ascertain. That will be the case where the buildings are specialist and do not have an ascertainable open market value for existing use. In such circumstances, institutions should use a valuation based on depreciated replacement cost. The method used for the valuation and name and qualification of the valuer should be disclosed in the notes to the accounts. If land is held specifically for development, investment and subsequent sale then the requirements of paragraph 25 above should be followed.

55 Institutions should take notice of the options provided within FRS 15 to continue or change revaluation practices. Where the current policy is one of revaluation, the institution should be aware of the onerous requirements to continue to keep the valuation up to date, taking into account FRS 11, which deals with impairment.

56 The capitalisation of furniture and equipment should be subject to a reasonable materiality level, determined by the institution.

57 A number of institutions occupy premises which are owned by other bodies and for which occupancy no annual or nominal rental payment is made. In some cases there may be no formal agreement to occupy. Where no formal occupancy exists, the institution may wish to consider regularising the position by the establishment of a lease or licence in respect of the premises concerned. Where an institution enjoys the use of an asset which it does not own and for which no annual or nominal rental is paid, whether or not such use is regulated by a licence or lease, the Financial Statements must disclose this. If practicable, a value should be attributed to this benefit and be capitalised, with a corresponding credit to the Revaluation Reserve, and thereafter depreciated over the period of use.

58 Donated Tangible Fixed Assets should be accounted for at valuation on receipt, with a corresponding credit to the Revaluation Reserve. Donated Land and Buildings should be valued in accordance with paragraphs 22 and 54 above.

59 Costs incurred in relation to a Tangible Fixed Asset after its initial purchase or production should be treated in accordance with paragraph 29 above. Paragraph 36 of FRS 15 lists the circumstances in which subsequent expenditure should be capitalised.

Accounting for donations and endowments

60 Where an institution receives a donation, bequest or gift with no specific terms attached to its use, it should be recorded as income in the income and expenditure account. The expenditure should be accounted for in the period when it is incurred as either capital or revenue expenditure, depending on the nature of the expenditure and the Accounting Policies of the institution.

61 Where an institution receives a sum of money or assets under a specific agreement or contract on condition that it applies only the income generated therefrom for any purpose specified by the governing body, the capital sum should be shown on the balance sheet as a General Endowment. The related assets, whether cash, bonds, equities or property, should be recorded as Endowment Assets. The associated income should be credited to the income and expenditure account on a receivable basis. Any realised gains or losses from dealing in the related assets should be retained within the General Endowment in the balance sheet.

62 Where an institution receives a sum of money or assets under a specific agreement or contract on condition that it applies the income generated therefrom for a specific purpose, the capital sum should be shown on the balance sheet as a Specific Endowment. The related assets, whether cash, bonds, equities or property, should be recorded as Endowment Assets. Income should be credited to the income and expenditure account to the extent that the condition is met, that is, the expenditure is incurred on the specific purpose. Any income earned in excess of that applied to the specific

purpose should be retained within Specific Endowments as the institution has no right to the income and so has no asset of its own.

63 Where an institution receives a sum of money or asset under a specific agreement or contract and it is applied to the cost of a Tangible Fixed Asset it should be shown on the balance sheet as a Deferred Capital Grant. The Deferred Capital Grant should be released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the Tangible Fixed Asset.

Financial and operating review (treasurer's report, members' report or equivalent)

64 This review, which may also be called a treasurer's report, members' report or directors' report, should provide an overview of the institution's finances and operations in so far as they impact directly on the institution’s financial performance and financial position. The form and content is not prescribed, but sufficient information should be provided to enable the reader to gain a reasonable understanding of the institution's financial position and key operational influences affecting the financial position. Where appropriate, the form and contents may be prescribed by the Companies Act or other requirements, such as those of the relevant Funding Council. Unless contained in separate statements, this review should also include the statements of the institution’s structure of corporate governance and the responsibilities of the governing body, including internal control and risk management.

Notes to the accounts

65 The notes to the accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice, and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially. Such analyses will normally include details of:

- a the main sources of income and expenditure;
- b the movements to and from reserves;
- c the impact of depreciation;

d disclosures about retirement benefits as required by SSAP 24 and FRS 17;

e related party transactions; and

f any information required by the accounts directions issued by the Funding Councils.

66 The format for the primary statements must follow the format in the Appendix (see paragraph 41). The specimen Financial Statements included in the Appendix are for illustration only. It is up to each institution to decide the appropriate degree of explanation which should be given in the notes to the accounts.

Agency arrangements

67 Where the institution disburses funds on behalf of a Funding Council or other body and has no beneficial interest in the funds, the receipt and subsequent disbursement of the funds should be excluded from the income and expenditure of the institution where the FRS 5 test for the recognition of an asset (paragraph 54 of FRS 5) is not met, that is, where the institution does not have control over the future economic benefits.

Application of Accounting Standards

This section is provided to assist institutions in determining the relevance of SSAPs and FRSs, but because new standards are issued regularly, it is important that finance directors refer to the latest information provided by the Accounting Standards Board, including UITF Abstracts, which have the same force as SSAPs and FRSs. Reference should be made to the Accounting Standards Board's website (www.asb.org.uk).

68 Institutions must follow all applicable SSAPs and FRSs and guidance from the Accounting Standards Board. The following list is a guide to the standards most likely to be relevant.

SSAPs withdrawn

69 SSAPs 1, 2, 3, 6, 7, 8, 10, 11, 12, 14, 15, 16, 18, 22 and 23 have been withdrawn.

SSAP 4 *Accounting for Government Grants*

70 This SSAP is relevant to all institutions. Revenue-based grants should be passed through the income and expenditure account when the conditions relating to the grant have been satisfied. Capital-based grants should be

recognised as income over the life of the Asset to which they relate. The treatment in the examples accompanying this SORP follows these principles.

SSAP 5 *Accounting for VAT*

71 This SSAP is relevant to all institutions. Irrecoverable VAT on inputs should be included in the costs of such inputs. Any irrecoverable VAT allocated to Tangible Fixed Assets should be included in their cost.

SSAP 9 *Stocks and Long-term Contracts*

72 This SSAP is relevant to all institutions. It deals with the valuation of stocks which are normally to be stated at cost or net realisable value, whichever is lower. Other parts of the SSAP deal with valuation rules for long-term contracts, which state that it can be appropriate to take credit for ascertainable turnover and profit while contracts are in progress. These rules should be applied in relation to research grants and contracts, European and other long-term contracts.

SSAP 13 *Accounting for Research and Development*

73 This SSAP is relevant to all institutions. Costs of research should be written off as incurred. This SSAP is mainly in respect of commercial research and development (R&D) rather than higher education research, but this SORP follows the same principle. The SSAP is specific (and refers to the Companies Act) that pure and applied research may not be treated as an asset. It sets out criteria under which the R&D costs of products for commercial exploitation might be capitalised (see also FRS 10 *Goodwill and Intangible Assets*).

SSAP 17 *Accounting for Post-balance Sheet Events*

74 This SSAP is relevant to all institutions. It sets out the requirements for reporting and, if applicable, for adjusting the Financial Statements in relation to such events.

SSAP 19 *Accounting for Investment Properties*

75 This SSAP is relevant to certain institutions. Interests in land and/or buildings that are held for their investment potential should be included in the balance sheet at their open market value, without charging depreciation.

SSAP 20 *Foreign Currency Translation*

76 This SSAP is relevant to all institutions. Exchange gains and losses should be taken to the income and expenditure account.

SSAP 21 *Accounting for Leases and Hire Purchase Contracts*

77 This SSAP is relevant to all institutions. It requires lessees to capitalise material finance leases. Where contracts are treated as operating leases, paragraph 37 of this SSAP needs to be considered in terms of the proper allocation to accounting periods over the period of the lease.

SSAP 24 *Accounting for Pension Costs*

78 This SSAP is relevant to all institutions until FRS 17 is adopted in full.

SSAP 25 *Segmental Reporting*

79 This SSAP is relevant to all institutions. However, as all institutions undertake a single segment of academic activity, which includes both teaching and research, that is undertaken by the same staff, uses the same premises and is financed from the same income streams, this SSAP will not be relevant to those institutions that do not have material segments of other activities or geographical operations. Where such material segments of other activities or geographical operations do exist, then this SSAP should be applied. This SSAP requires the disclosure of turnover, segment result and segment net assets by class of business and geographical segment where material other segments exist.

FRS 1 *Cash Flow Statements*

80 This FRS is relevant to all institutions. FRS 1 (revised 1996) requires institutions to prepare a cash flow statement in the manner set out in the FRS. The cash flow statement should include all inflows and outflows of cash.

FRS 2 *Accounting for Subsidiary Undertakings*

81 This FRS is relevant to many institutions. FRS 2 sets out the conditions under which an entity qualifies as a parent Undertaking which should prepare consolidated Financial Statements for its group, the parent and its subsidiaries. It also sets out the manner in which consolidated Financial Statements are to be prepared. A large part of FRS 2 is directly based on the

Companies Act, as amended, and the requirements of the standard are consistent with the Act (parallel legislation exists in Northern Ireland).

FRS 3 *Reporting Financial Performance*

82 This FRS is relevant to all institutions. Its objective is to require institutions to highlight a range of important components of financial performance to aid users in understanding the performance achieved by an institution in a period, and to assist them in forming a basis for their assessment of future results and cash flow. FRS 3 requires a layered format for the income and expenditure account which is split between continuing, newly acquired and discontinued operations. It effectively prohibits extraordinary items and requires exceptional items to be disclosed on a separate line within the activity to which they relate. FRS 3 requires exceptional profits or losses on the sale or termination of an operation, exceptional costs of a fundamental reorganisation or restructuring and exceptional profits or losses on the disposal of fixed assets to be disclosed on the face of the income and expenditure account.

83 The standard also requires a statement of total recognised gains and losses to be included in the Accounts. The statement reports, *inter alia*, gains and losses arising on revaluations and discloses the effect of prior year adjustments. A note of historical surpluses is also required. The purpose of this note is to present the surpluses or deficits of institutions that have revalued assets on a more comparable basis with those that have not.

FRS 4 *Capital Instruments*

84 This FRS is relevant to all institutions. For example, it applies to institutions using low-start financing arrangements and particularly concerns the requirement to allocate finance costs at a constant rate over the term of the borrowing. The objective of FRS 4 is to ensure that Financial Statements provide a clear, coherent and consistent treatment of capital instruments. The standard requires capital instruments to be presented in Financial Statements in a way that reflects the obligations of the issuer. The standard also prescribes the methods to be used in order to determine the amounts to be

ascribed to capital instruments and their associated costs and specific relevant disclosures.

FRS 5 *Reporting the Substance of Transactions*

85 This FRS will be relevant to all institutions. FRS 5 is a statement of principle requiring the economic substance and any resulting assets, liabilities, gains or losses of an entity's transactions, rather than just the transaction's legal form, to be reported in its Financial Statements.

86 Where there is a series of connected transactions, the economic substance of the whole series should be determined and accounted for, rather than accounting for each individual transaction. In transactions that involve the granting or acquiring of options, regard should be given to the likely outcome, the motives of all the parties involved and possible scenarios contemplated at the time that the deal was struck, when deciding the correct accounting treatment.

87 As well as the recognition of Assets and Liabilities, FRS 5 also addresses the de-recognition of Assets that can arise through the transfer of benefits and risks. It provides for complete and partial de-recognition as well as 'netting off' of Assets and liabilities under certain, very restrictive circumstances, through 'linked presentation'. As part of the issue of recognition the standard defines the 'quasi-Subsidiary', once again through the principle of economic substance, and requires that it should be consolidated in the institution's consolidated Financial Statements.

88 Detailed guidance on accounting for certain 'off-balance sheet' financing arrangements is provided by the standard through a series of application notes. The following may be of particular interest to institutions:

- B – Sale and Repurchase Agreements;
- D – Securitised Assets; and
- F – *Private Finance Initiatives and Similar Contracts*, which should be read in conjunction with the Treasury's guidance on accounting for PFI transactions.

FRS 6 *Acquisitions and Mergers*

89 This FRS is relevant to all institutions. It sets out the circumstances in which the two methods of accounting for a business combination (acquisition accounting and merger accounting) are to be used. A business combination is the bringing together of separate entities into one economic entity as a result of one entity uniting with another, or obtaining control over another entity's net assets and operations.

90 The objective of the FRS is to ensure that merger accounting is used for only those business combinations that are not, in substance, the acquisition of one entity by another but the formation of a new reporting entity as a substantially equal partnership where no party is dominant. To this end the FRS sets out five criteria, of which the first three are relevant to institutions, which must be met for merger accounting to be used. When the relevant criteria are met, merger accounting should be used. If the relevant criteria are not met then acquisition accounting should be used.

91 In the 'not-for-profit' sector, business combinations are more likely to be the result of institutions working together, so merger accounting is likely to be more appropriate.

FRS 7 *Fair Values in Acquisition Accounting*

92 This FRS is relevant to all institutions. It sets out the principles of accounting for a business combination under the acquisition method of accounting. It sets out how the fair values of identifiable Assets and liabilities should be determined and what 'identifiable assets and liabilities' means.

93 The objective of the FRS is to ensure that, when a business entity is acquired by another, all the Assets and liabilities of the acquired entity at the date of acquisition are recorded at fair values reflecting their condition.

94 All changes to the acquired Assets and liabilities, and the resulting gains and losses, which arise after control of the acquired entity has passed to the acquirer, are reported as part of the post-acquisition financial performance of the group.

FRS 8 *Related Party Disclosures*

95 This FRS is relevant to all institutions. The objective of FRS 8 is to ensure the disclosure of the existence of related parties and the extent and nature of transactions with them. The standard seeks disclosure, not regulation, of these transactions.

96 Disclosure is only required if the transactions are material (to either party). The FRS provides a definition of Materiality, that is, ‘transactions are material when their disclosure might reasonably be expected to influence decisions made by the users of general purpose Financial Statements’. Although the standard excludes disclosure of transactions with government departments and their sponsored bodies, the SORP requires disclosure of Funding Council grants. Transactions between group entities that are eliminated on consolidation do not require disclosure in either the Group or parent’s Financial Statements.

97 Related parties, for institutions, are most likely to be found among:

- a those members of the governing body (and their ‘close family’) who hold influential posts in local public and private sector organisations with which the institution has transactions;
- b senior staff who hold influential posts on other bodies with which the institution has transactions, for example, an NHS healthcare trust; and
- c Associate and Joint Venture companies of the institution.

98 The disclosure of related party transactions should be through a note, and should include names, relationship, description of transactions, amounts involved, year-end balances and any amounts written off during the period.

FRS 9 *Associates and Joint Ventures*

99 This FRS is relevant to all institutions. It applies to arrangements that fall between full Subsidiary Undertakings and investments.

100 An Associate is an entity in which an institution holds a participating interest, without a view to reselling that investment, and exerts significant influence over its financial and operating policies. Associate Undertakings should be consolidated using the equity accounting method.

101 A Joint Venture is a contractual arrangement between two or more parties to undertake common objectives. Joint Ventures can take the form of a separate business entity or a contractual arrangement that does not constitute an entity. Joint Ventures that constitute separate businesses and are considered entities should be consolidated using the gross equity accounting method. A joint arrangement that does not constitute an entity could exist where institutions establish arrangements for a common purpose, such as sharing costs or undertaking building projects. In such cases, the arrangements would be brought into the institution's own accounts on a proportional basis.

FRS 10 *Goodwill and Intangible Assets*

102 This FRS may be relevant to institutions. Goodwill is the difference between the cost of the business or institution that is acquired and the fair value of the net Assets of that entity. Goodwill must be capitalised and amortised over a period normally no longer than 20 years. Impairment tests must be carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment.

103 Negative goodwill up to the fair values of the non-monetary assets acquired should be recognised in the income and expenditure account in the periods in which the non-monetary assets are recovered, whether through depreciation or sale. Any negative goodwill in excess of the fair values of the non-monetary assets acquired should be recognised in the income and expenditure account in the periods expected to be benefited.

104 A purchased intangible asset should be capitalised at cost. An intangible asset acquired as part of a business combination should be capitalised separately if its value can be measured reliably. An internally developed intangible asset may only be capitalised if it has a readily ascertainable market value.

FRS 11 *Impairment of Fixed Assets and Goodwill*

105 This FRS is relevant to all institutions. Impairment arises when the higher of net recoverable value or value in use of an asset is below its carrying value.

106 Central to the concept is agreeing what constitutes an ‘income generating unit’ which suffers the impairment. This may be an individual Asset, a department, school, faculty, cost centre or even the entire institution.

107 Institutions will need to establish appropriate indicators of impairment and, if there are such indications, appropriate reviews or tests of impairment. These reviews will determine whether there is an impairment and quantify the financial impact for the Financial Statements. Indications of impairment include: operating losses, physical damage, obsolescence or an adverse change in the business, regulatory or statutory environment.

108 The standard requires the cost of impairments to be charged on an asset-by-asset basis, in the first instance, against a revaluation surplus that relates to that particular asset and then, to the extent that this does not cover the cost of the impairment, to the income and expenditure account. The standard does not discriminate between temporary or permanent impairment. Temporary diminutions in carrying values must be accounted for in the same way as permanent diminutions.

FRS 12 *Provisions, Contingent Liabilities and Contingent Assets*

109 This FRS is relevant to all institutions. Its aim is to ensure that appropriate recognition criteria and measurement bases are applied to Provisions, Contingent Liabilities and Contingent Assets and that sufficient information is disclosed in the notes to the Financial Statements to enable users to understand their nature, timing and amount.

110 A Provision is defined as a liability of uncertain timing or amount, which has to meet the following three criteria:

a present obligation resulting from a past event;

b probable outflow of economic benefits; and

c reliable estimate can be made of the amount of the obligation.

111 The existence of a contractual or legal obligation to pay for goods or services to be supplied at a future date does not necessarily justify a provision. It may require disclosure as a capital commitment or, if the contract is onerous, as a Contingent Liability.

112 Provisions for restructuring should only be recognised when the institution is demonstrably committed to that restructuring and when, as a result of this commitment, there is valid expectation that there will be a transfer of economic benefits.

113 The amount recognised as a Provision should be the best estimate of the expenditure required to settle the obligation at the balance sheet date. The amount recognised as a Provision should be discounted to present value where the time value of money is material. The discount rate used should reflect current market assessments of the time value of money and reflect any risks specific to the liability. The best estimate should be determined by the judgement of the institution's management and should take account of:

a past experience of similar transactions;

b opinions of independent experts (where appropriate);

c uncertainties caused by weighting all possible outcomes (that is, 'expected value'); and

d appropriate Accounting Policies as outlined in FRS 18.

114 A Contingent Liability, which is not recognised but is disclosed by way of note, arises when the definition of a Provision is not met and includes three scenarios:

a a possible rather than a present obligation;

b a possible rather than a probable outflow of economic benefits; and

c an inability to measure the economic outflow.

115 Similarly, a Contingent Asset, which is not recognised but disclosed by way of note, is defined as a possible rather than present Asset arising from a past event. Contingent Assets should be assessed continually to ensure they are treated appropriately in the Financial Statements. If in any period it becomes virtually certain that an inflow of economic benefits will occur, then the asset and its associated profit should be recognised in that accounting period. It is important that any disclosure avoids giving misleading indications of the likelihood of a profit arising.

116 It should be noted that there are no grounds for recognising a Provision for future repairs and maintenance. This is because these costs relate to the future operation of an institution, rather than to a past event. As such they should

either be capitalised as Assets or written off as operating expenses when incurred, as appropriate.

FRS 13 *Derivatives and Other Financial Instruments*

117 This FRS is likely to be relevant to a minority of institutions since it only applies to those which issue listed or publicly traded financial instruments.

118 Where it applies, it is concerned solely with disclosures. The objective of these disclosures is to provide information about the impact of financial instruments on the institution's risk profile, how the risks arising from financial instruments might affect the institution's performance and financial condition, and how these risks are being managed. Narrative disclosures may be included either in the Financial Statements or in the treasurer's report (or institutional equivalent). Some numerical disclosures are required in the notes to the accounts. Institutions to which FRS 13 applies are referred to the worked examples in Appendix III of the FRS.

FRS 14 *Earnings per Share*

119 This FRS is not likely to be relevant to institutions as it applies to listed companies and to companies whose securities are traded on other markets such as Alternative Investments Market.

FRS 15: Tangible Fixed Assets

120 This FRS is relevant to all institutions. The objectives of FRS 15 are to ensure that:

a consistent principles are applied to the initial measurement of Tangible Fixed Assets;

b where an entity chooses to revalue particular classes of Tangible Fixed Assets, the valuation is performed on a consistent basis for each class and kept up-to-date, and gains and losses on revaluation are recognised on a consistent basis;

c depreciation of Tangible Fixed Assets is calculated in a consistent manner and recognised as the economic benefits are consumed over the Assets' useful economic lives; and

d sufficient information is disclosed in the Financial Statements to enable users to understand the impact of the institution's Accounting Policies regarding initial measurement, valuation and depreciation of Tangible Fixed Assets on the financial position and performance of the institution.

121 The scope of the FRS is that it applies to all Financial Statements that are intended to give a true and fair view of a reporting entity's financial position and income and expenditure for the period. Its requirements apply to all Tangible Fixed Assets, with the exception of investment properties as defined in SSAP 19 *Accounting for Investment Properties*.

FRS 16 *Current Tax*

122 This FRS is relevant to all institutions. Most institutions have charitable status and therefore have an exemption from corporation tax. Where there is a significant element of non-charitable activity, corporation tax may become payable, although in most cases institutions will take action to ensure that the tax charge is offset and therefore not payable. Therefore, the accounting for current taxation under the standard is unlikely to be widely applicable. Where current taxation is payable, institutions should apply the standard in full.

123 The standard defines current tax as ‘the amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous accounting periods’. In accounting for current tax, the standard requires that current tax be recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is (or has been) recognised in the statement of total recognised gains and losses, in which case the tax should be recognised there. The standard also deals with tax on dividends by stating that dividends (incoming and outgoing) should be recognised at an amount that includes any withholding tax, but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient.

FRS 17 *Retirement Benefits*

124 This FRS is relevant to all institutions. The nature of pension arrangements varies between institutions and between different categories of staff within institutions. The following types of scheme are the most prevalent across the sector:

a notionally funded national schemes;

e funded national schemes where assets and liabilities cannot be ascribed to particular employer institutions;

f local government funded schemes; and

g individual employer specific schemes.

125 The resultant lack of consistency of treatment between different institutions and categories of staff within institutions will reduce the comparability of the financial position of institutions. Accordingly, only the transitional arrangements set out in the FRS should be followed.

FRS 18 *Accounting Policies*

126 This FRS is relevant to all institutions and should be applied in full. Institutions need to pay particular notice to the standard’s requirements, as set out in paragraph 58 of the FRS, regarding Financial Statements that fall within the scope of the SORP. This SORP recommends particular accounting treatments with the aim of narrowing areas of difference between institutions and promoting comparability between Financial Statements. The comparability is further enhanced if users are made aware of the extent of the institution’s compliance with the SORP. Therefore, FRS 18 requires that an institution’s Financial Statements should state whether they have been prepared in accordance with the provisions of the SORP. In the event of departure, the effect of, and reasons for, such departure should be disclosed.

127 Accounting policies should be consistent with relevant accounting standards, UITF Abstracts and this SORP, and where these permit choice, the most appropriate for giving a true and fair view should be selected. In making this selection, the institution should judge the most appropriate against the objectives of relevance, reliability, comparability and understandability. An institution should review its Accounting Policies regularly to ensure that they remain the most appropriate to its own particular circumstances. Where this is judged not to be the case, a new policy should be adopted. The standard requires certain disclosures about the policies followed and any changes to those policies. It also requires disclosures regarding certain accounting estimates used in applying the Accounting Policies.

FRS 19 *Deferred Tax*

128 This FRS is unlikely to be widely applicable to institutions, except where they operate subsidiary companies which have not taken steps to offset their tax liability. In those circumstances, the standard should be applied in full.

UITF Abstracts

129 The following may be of relevance:

- UITF Abstract 4 Presentation of Long-Term Debtors in Current Assets;
- UITF Abstract 5 Transfers from Current Assets to Fixed Assets;
- UITF Abstract 6 Accounting for Post-retirement Benefits other than Pensions;
- UITF Abstract 24 Accounting for Start-up Costs;
- UITF Abstract 28 Operating Lease Incentives; and
- UITF Abstract 29 Website Development Costs.

UITF Abstract 4 *Presentation of Long-term Debtors in Current Assets*

130 In most cases it will be satisfactory to disclose the size of debtors due after more than one year in the notes to the accounts. Although normally unlikely to apply to institutions, there may be some instances where the amount is so material in the context of net current assets that the absence of disclosure of debtors due after more than one year on the face of the balance sheet may cause readers to misinterpret the Financial Statements. In such circumstances, the amount should be disclosed on the face of the balance sheet within current assets.

UITF Abstract 5 *Transfers from Current Assets to Fixed Assets*

131 Where assets are transferred from current to fixed, the current asset accounting rules should be applied up to the effective date of transfer, which is the date of management's change of intent. Consequently the transfer should be made at the lower of cost and net realisable value, and accordingly an assessment should be made of the net realisable value at the date of transfer. If this is less than its previous carrying value the diminution should be charged in the income and expenditure account, reflecting the loss to the institution which the asset was held as a current asset. Whether assets are transferred at cost or at net realisable value, fixed asset accounting rules will apply to the assets

subsequent to the date of transfer, including the disclosure requirements relating to valuations (where appropriate).

UITF Abstract 6 *Accounting for Post-retirement Benefits other than Pensions*

132 Although normally unlikely either to apply, or to be material, to institutions, post-retirement benefits other than pensions are liabilities, which should be recognised in the Financial Statements. Such benefits share many of the characteristics of pensions and the principles of SSAP 24, and ultimately FRS 17, are applicable to their measurement and disclosure.

UITF Abstract 24 *Accounting for Start-up Costs*

133 Start-up costs should be accounted for on a basis consistent with the accounting treatment of similar costs incurred as part of the institution's ongoing activities. If there are no such similar costs, start-up costs that do not meet the criteria for recognition as assets under a relevant accounting standard, such as FRS 15 *Tangible Fixed Assets*, should be recognised as an expense when they are incurred; they should not be carried forward as an asset. Where start-up costs meet the definition of exceptional items in FRS 3 *Reporting Financial Performance*, they should be disclosed in accordance with that standard.

UITF Abstract 28 *Operating Lease Incentives*

134 This abstract, if relevant, will apply to all institutions. All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net payment agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of the payments.

UITF Abstract 29 *Website Development Costs*

135 This abstract will apply to all institutions. All planning, maintenance and operating costs should be charged to the income and expenditure account as incurred. Although the abstract allows design and content costs to be capitalised, it is unlikely that institutions will normally pass the test that the primary purpose of the website is to provide a means of delivery of the teaching and research services offered by the institution in fulfilment of its principal objectives.

Other UITF abstracts

136 Other UITF abstracts are either not relevant to institutions in the sector or are considered unlikely to become relevant. However, if an abstract does become relevant to an individual institution then the requirements of that abstract should be followed. Similarly, all UITF abstracts published after the date that this SORP went to press should be followed by all institutions if they are relevant.

Financial Reporting Standard for Smaller Entities

137 Institutions should not adopt the current version of the Financial Reporting Standard for Smaller Entities.

Casterbridge College

Model Financial Statements for the Year Ended 31 July 2003

Casterbridge College

Consolidated income and expenditure account for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Income			
Funding Council grants	2	33,996	36,921
Tuition fees and education contracts	3	3,609	4,944
Research grants and contracts	4	228	303
Other income	5	2,550	1,875
Endowment and Investment income	6	2,053	1,437
Total income		**42,436**	**45,480**
Expenditure			
Staff costs	7	24,327	28,542
Exceptional restructuring costs	7	1,551	0
Other operating expenses	9	12,750	13,557
Depreciation	13	4,038	2,802
Interest payable	10	108	0
Total expenditure		**42,774**	**44,901**
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before tax		(338)	579
Loss on disposal of assets	13	(9,420)	0
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		(9,758)	579

Taxation	11	(12)	(12)
(Deficit)/surplus on continuing operations after depreciation of assets at valuation, disposal of assets and tax		**(9,770)**	**567**

The income and expenditure account is in respect of continuing activities

There were no operations that were acquired or discontinued by Casterbridge College during the year. Where appropriate, under paragraph 14 of FRS 3, the aggregate results of continuing operations, acquisitions (as a component of continuing operations) and discontinued operations should be disclosed separately. The format of the consolidated Income and Expenditure Account under this SORP lends itself more readily to disclosure of the information required by paragraph 14 of FRS 3 through the adoption of the general layout of illustrative example 2 included in the text of FRS 3. Paragraph 30 of FRS 3 requires the comparative figures to include in the continuing category only the results of those operations included in the current period's continuing operations: the necessary details can be given by way of note, as set out in the illustrative examples included in FRS 3.

Casterbridge College

Consolidated statement of historical cost surpluses and deficits for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit)/surplus on continuing operations before taxation		(9,758)	579
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount	23	1,416	1,431
Realisation of property revaluation gains of previous years	23	16,920	0
Historical cost surplus for the period before taxation		**8,578**	**2,010**
Historical cost surplus for the period after taxation		**8,566**	**1,998**

Casterbridge College

Consolidated statement of the total recognised gains and losses for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		(9,770)	567
Unrealised surplus on revaluation of fixed assets	13	5,100	0
Appreciation of endowment asset investments	22	2,200	0
Endowment income retained for year	22	(50)	0
New endowments	22	100	0
Total recognised (losses)/gains relating to the period		**(2,420)**	**567**
Reconciliation			
Opening reserves and endowments		92,679	92,112
Total recognised (losses)/gains for the year		(2,420)	567
Closing reserves and endowments		**90,259**	**92,679**

Casterbridge College

Balance sheets as at 31 July 2003

	Notes	Group 2003 £000	College 2003 £000	Group 2002 £000	College 2002 £000
Fixed assets					
Tangible assets	13	74,751	74,337	73,974	73,584
Investments	14	0	6	0	6
		74,751	**74,343**	**73,974**	**73,590**
Endowment assets	15	**26,850**	**26,850**	**24,600**	**24,600**
Current assets					
Stock		129	114	129	108
Debtors	16	1,170	1,116	1,290	1,317
Investments		6,000	6,000	7,500	7,500
Cash at bank and in hand		2,512	2,512	585	585
		9,811	9,742	9,504	9,510
Creditors: amounts falling due within one year	17	4,344	3,972	3,951	3,648
Net current assets		**5,467**	**5,770**	**5,553**	**5,862**
Total assets less current liabilities		107,068	106,963	104,127	104,052
Creditors: amounts falling due after more than one year	18	4,401	4,401	162	162
Provisions for liabilities and charges	20	3,498	3,498	2,124	2,124
NET ASSETS		**99,169**	**99,064**	**101,841**	**101,766**
Deferred capital grants	21	8,910	8,910	9,162	9,162
Endowments					
Specific	22	18,650	18,650	17,100	17,100
General	22	8,200	8,200	7,500	7,500
		26,850	**26,850**	**24,600**	**24,600**
Revaluation reserve	23	46,050	46,050	59,286	59,286
General reserve	24	17,359	17,254	8,793	8,718
Total Reserves		63,409	63,304	68,079	68,004

TOTAL	**99,169**	**99,064**	**101,841**	**101,766**

The financial statements were approved by the governing body on [insert date] and were signed on its behalf by:

[signature]	[signature]	[signature]
J. Smith – Chairman	R. Cratchit – Director of Finance	T. Ross – Principal

Casterbridge College

Consolidated cash flow statement for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Cash flow from operating activities	25	1,411	774
Returns on investments and servicing of finance	26	1,945	1,437
Taxation	11	(12)	(12)
Capital expenditure and financial investment	27	(7,731)	(6,363)
Management of liquid resources	28	1,500	0
Financing	29	4,464	(36)
Increase/(decrease) in cash in the period	30	**1,577**	**(4,200)**

Reconciliation of net cash flow to movement in net funds/(debt)

Increase/(decrease) in cash in the period		1,577	(4,200)
Cash inflow from new secured loan	29	(4,500)	0
Cash inflow from liquid resources	28	(1,500)	0
Change in net debt resulting from cash flows	29	36	45
Movement in net funds in period		(4,387)	(4,155)
Net funds at 1 August		10,587	14,742
Net funds at 31 July		**6,200**	**10,587**