THE
FURTHER
EDUCATION
FUNDING
COUNCIL

For information

Supplement B to Circular 00/22

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

Contents

SORP for Further and Higher Education

Preface

This new Statement of Recommended Accounting Practice (SORP) is the first to combine the requirements of institutions in the Further and Higher Education sectors. It has developed from the existing SORP for Higher Education Institutions and a similar series of accounting requirements operating in Further Education Institutions.

Further and Higher Education institutions (institutions) come from a variety of backgrounds, having been founded as Universities or Polytechnics or Colleges. They differ in size and complexity. All have charitable status, though not all are ‘exempt’ charities, and some are companies limited by guarantee. These institutions form a separate identifiable group with special characteristics and are therefore outside the scope of the Charities SORP.

The financial statements of institutions should, as far as possible, be prepared on a comparable and consistent basis. They should, where possible, be prepared on a similar basis to the accounts of other corporate organisations, and should follow all relevant accounting standards, including those introduced after the publication of this SORP. The Statement of Recommended Practice which follows takes account of best accounting practice, the requirements of Funding Councils, the accounting provisions of the *Companies Act 1985* and any other relevant legislation, Statements of Standard Accounting Practice (SSAPs), and Financial Reporting Standards (FRS’). The concept of the ‘true and fair view’ is regarded as of paramount importance.

It is recognised that from time to time it will be necessary to review this Statement of Recommended Practice in response to changes in accounting practices.

Statement by The Accounting Standards Board

The Accounting Standards Board (ASB) has approved a Steering Committee for the purpose of issuing recognised SORPs. This arrangement requires the Steering Committee to follow the ASB’s code of practice for the production and issuing of SORPs. The Steering Committee consists of representatives of the Further and Higher Education sectors and users of their Financial Statements (a list of members is appended).

The ASB code of practice provides the framework to be followed by the Steering Committee for the development of SORPs, but does not entail a detailed examination of the proposed SORP by the ASB. However, a review of limited scope is performed.

On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB’s code of practice and does not appear to contain fundamental points of principle which are unacceptable in the context of current accounting practice or to conflict with any existing or currently contemplated accounting standard.

Part 1
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 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 European Union 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;

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 grant 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, 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 accounted for using the ‘matching principle’, so is only credited to the Income/Expenditure Account as the appropriate expenditure, including expenditure on indirect (overhead) costs is incurred.

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 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. the funding councils;

c. government departments and parliament;

d. the institution’s employees;

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. The main objectives of the reports and financial statements are, therefore, 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;
c. a suitable analysis of:
    i. the income from all sources within the period of the accounts
    ii. the expenditure on all activities within the period of the accounts
    iii. the assets and liabilities of the institution, classified in suitable form
    iv. any known or probable circumstances which might significantly affect its financial position; and
    v. how the institution is performing financially, including the adequacy of the working capital, its solvency (or insolvency), and its investment performance.

Part 2
Definition of Terms

8 The definitions which follow have been adopted for the purposes of this statement.

- **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.
- **Associates and Joint Ventures** are defined in FRS9.
- **Capital Grants** are grants which have been specifically identified by the grantor to be used for the purchase, construction or development of assets.
- **Contingent Liability** is defined in FRS12
- **Current Asset Investments** are investments other than fixed asset investments or endowment asset investments.
- **Deferred Capital Grants** are 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 Asset Investments** are those investments 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.
- **Financial Statements** comprise the accounts, the statement of accounting policies and the notes to the accounts.
- **Fixed Assets** are those assets intended to be held for use on a continuing basis. FRS15 gives a fuller definition of Tangible Fixed Assets.
- **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 as to the investor’s ability to dispose of the investment.

- **General Endowments** are those 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** is that which can be applied to any activity of the institution at the discretion of the institution. Examples of such income are funding council recurrent grant (which may have some restrictions), tuition fees and income from general endowments.
- **Provisions** are defined in FRS12.
- **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).
- **Revaluation Reserve** is the sum of unrealised amounts arising from the revaluation of the institution's fixed assets.
- **Specific Endowments** are those 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 that which 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.
- **Subsidiary Undertaking** is analogous to the definition in the *Companies Act* and FRS2, being a body corporate or partnership or unincorporated association carrying on a trade or business with or without a view to profit. (see also paras 36 to 40).

Part 3
Statement of Recommended Practice

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 which should include a statement of accounting policies, an income and expenditure account, a balance sheet, a cash flow statement, a statement of total recognised gains and losses and notes to the accounts. They should also include the reports of the auditors, a treasurer's or members' report (or equivalent) and statements explaining how the institution is governed and managed and the responsibilities of the governing body.

Basis of accounting

11 The Accounts 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 FRS3). Financial statements should contain a positive statement that they are prepared in accordance with applicable Accounting Standards and any material departures from such standards should be clearly explained in the financial statements.

12 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 subsidiary or associate undertakings.

13 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 company is a charity, its financial statements should comply with the Charities SORP.

Consolidation

14 Where an institution has subsidiary or associate undertakings, the Financial Statements should be prepared on a consolidated basis in accordance with FRS2 and FRS9. The Financial Statements of all subsidiary undertakings to be used in preparing the consolidated financial statements should, wherever practicable, be prepared to the same financial year-end and for the same accounting period as the parent institution.

15 Where a subsidiary or associate 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 a subsidiary or associate 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 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.

16 The Financial Statements must disclose for each subsidiary or associate 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 subsidiary or associate 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.

17 Where a subsidiary or associate undertaking is excluded from consolidation, the notes to the accounts must disclose:

a. the name of the subsidiary or associate excluded;
b. any qualification contained in the auditors' report on the subsidiary or associate undertaking's financial statements for the relevant financial year.
c. the aggregate amount of the subsidiary or associate's 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 subsidiary or associate undertaking is not dealt with in the consolidated financial statements;
e. details of balances and transactions between the excluded subsidiary or associate 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; and
g. separate accounts for undertakings excluded under the 'different activities' clause of FRS2.

18 The circumstances under which a subsidiary or associate undertaking may not be consolidated are set out in paragraph 38 below.

Accounting for fixed assets

19 Land and buildings should be capitalised and should be included in the balance sheet at cost or valuation. In accordance with FRS15, paragraph 42, revaluation policies should be applied to individual classes of fixed assets, but need not be applied to all classes. Where there is a revaluation of land and buildings, increases/decreases in value should be taken to the revaluation reserve. Decreases in value should be set first against any previous revaluation surplus and any balance should be taken to the income and expenditure account. The valuation should be an open market value for existing use basis or, if that is not practicable, depreciated replacement cost. The method used for the valuation and the name and qualification of the valuer should be disclosed in the notes to the accounts. Donated land and buildings should be accounted for at valuation on receipt. Assets under construction, being enhanced, or planned for disposal, should be treated as set out in FRS15. Where tangible fixed assets are shown in the Balance Sheet at valuation, paragraph 74(a)(iv) of FRS15 also requires the disclosure of the historical cost and depreciation.

20 All fixed assets should be tested regularly for impairment, either individually or in groups, as set out in FRS11. Impairment is measured by comparing the carrying value of the asset with its recoverable amount. The recoverable amount is the higher of the net realisable value or the value in use. Value in use is normally the present value of the future cash flows obtainable as a result of the asset's future use. However, this may not be an appropriate measure in not-for-profit organisations, and paragraph 20 of the FRS suggests alternative measures of service may be more relevant. For institutions this may be replacement cost of the asset, or other indicators set out in the institution's strategic plan. Indicators of use such as planned student numbers for academic buildings, or occupancy levels for residences may be of assistance.

21 Equipment and furniture should be accounted for as 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.

22 The gain or loss arising from the disposal of fixed assets, calculated in compliance with FRS3 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.

23 Depreciation should be provided for in accordance with FRS15 'Tangible Fixed Assets' and the basis used disclosed in the financial statements.

24 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 accounts must disclose this and, if practicable, a value should be attributed to this benefit and be capitalised and thereafter depreciated over the period of use.

Accounting for inherited assets/liabilities

25 Where an institution has inherited fixed assets from a local authority, the 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 FRS15. 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.

Accounting for investments

26 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 associated undertakings, as defined in FRS9, should be shown in the consolidated accounts at attributable share of net assets (see FRS9, para 26). **Current asset investments,** which may include listed investments, should be shown at the lower of cost and net realisable value.

27 Subject to the need to match specific income and 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, endowment asset investments and current asset investments should be brought into the income and expenditure account in full; however, where income follows the matching principle as 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 it is not covered by a previous revaluation surplus;

c. increases/decreases in value arising on the revaluation of endowment asset investments 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 26 should be brought into the income and expenditure account.

Accounting for endowment reserves

In all cases the total of Endowments in the bottom half of the Balance Sheet must equate to the total of Endowment Assets.

Accounting for capital grants

29 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. This SORP moves Deferred Capital Grants to the bottom half of the Balance Sheet, instead of the previous practice of showing them as reducing the value of Total Net Assets. This reflects the reality of funding in the FE and HE sector that such grants are in practice generally seen as increasing the funding base of institutions and arrangements exist to ensure that such grants continue to be available for further appropriate use by the institution even if the original asset which was funded has been disposed of.

Format of accounts

30 The income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses should be presented in the formats set out in the appendix. The remainder of the information in the appendix is illustrative of how the disclosure requirements could be met in the rest of the financial statements.

Notes to the accounts

31 The notes to the accounts should contain basic 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.

32 The salaries of senior staff should be disclosed by way of a note to the accounts and should conform to the guidance issued by the relevant funding council or their equivalent, in their *Accounts Direction* from time to time.

Date from which effective

33 The provisions of this statement should be adopted for accounting periods commencing on or after 1 August 1999 (nineteen ninety-nine).

Part 4
Explanatory Notes

Reports and Financial Statements

34 The Reports and Financial Statements are as defined in paragraph 8.

35 The Financial Statements should be prepared in accordance with applicable accounting standards on an accruals basis. Application of the 'matching' concept will mean that income from specific endowments or other earmarked sources of income is accounted for in the income and expenditure account to match the associated expenditure.

Consolidation

36 An undertaking is defined in the Companies Act as 'a body corporate or partnership or an unincorporated association carrying on a trade or business with or without a view to profit'. Where an institution has subsidiary undertakings, consolidated financial statements should be prepared as defined in the Companies Act and FRS 2.

37 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.

(Further guidance is given in FRS2, in particular paragraph 7 of the Standard. In addition, consideration should be given as to whether the undertaking is a quasi -subsidiary in terms of FRS5, or an Associate or Joint Venture as defined in FRS9.)

38 Undertakings **may** be excluded from consolidation where:

a. inclusion, of all undertakings taken together, is not material;

and FRS 2 requires that they *must* be excluded if

b. the institution's rights over the assets, or the management, are severely restricted; or

c. 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

d. subsequent resale of the undertaking was intended at the time of acquisition and the undertaking has not previously been included in the consolidated accounts.

(Where subsidiary undertakings are excluded, FRS 2 sets out the differing treatments to be adopted for each category of subsidiary to be excluded from the consolidation.)

39 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.

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

Accounting for fixed assets

41 Institutions should conform to accounting standards for fixed assets, revaluations and impairments. Of particular relevance are SSAP4 'Accounting for Government Grants', FRS15 'Tangible Fixed Assets' and FRS11 'Impairment of Fixed Assets and Goodwill'. All the explanatory notes relating to these standards are likely to be relevant.

42 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 depreciated replacement cost. If land is held specifically for development, investment or sale then it should be revalued accordingly and treated as a current asset. Attention should be paid to the rules on transfers between fixed and current assets in UITF Abstract 5

43 For the first implementation of FRS15, which applies to financial years ending after 23 March 2000, institutions should take notice of the options provided within the Standard to continue or change present 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 FRS11, dealing with impairment. FRS15 contains a one-off opportunity to revert to historical cost valuations where institutions have revalued in the past, and also to freeze valuations at their current level.

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

45 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. If the financial statements are to give a true and fair view this benefit to the institution should be disclosed. Where practicable a value for the benefit should be established in the Balance Sheet and depreciated over the period of occupancy. As a minimum, the notes to the accounts should disclose the full circumstances. Where no formal occupancy agreement exists, the institution may wish to consider regularising the position by the establishment of a lease or licence in respect of the premises concerned.

46 In certain exceptional circumstances, it may not be possible to obtain a value for inherited or donated assets. FRS15 (paragraph 18) permits the asset being 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 accounts. The policy must be applied on an asset by asset basis.

47. Depreciation should be based on the amount at which the 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 regard should be had to the level of maintenance expenditure which may well have an effect on the asset life and the consequent rate of depreciation. A depreciable (i.e. wasting) asset's anticipated useful economic life must be reviewed annually and the accumulated and future depreciation adjusted accordingly. FRS11 reviews for possible impairment are required annually where assets (except freehold land) are considered to have a further useful economic life of more than fifty years. FRS11 gives indicators of impairment.

48 Costs incurred in relation to a fixed asset after its initial purchase or production should be capitalised only to the extent that they increase the expected future benefits to the institution from the existing fixed asset beyond its previously assessed standard of performance. The cost of any such enhancements should be added to the gross carrying amount of the fixed asset concerned.

Provisions

49 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 contingent liability.

Financial and operating review (Treasurer's Report, Members' Report, or equivalent)

50 The 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 insofar as they impact directly on the 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. The form and contents may be prescribed by the *Companies Act* or other requirements, such as those of a funding council.

Notes to the accounts

51 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 breakdowns of the main sources of income and expenditure, the movements to and from reserves and the impact of depreciation. An example of such disclosure is given in the suggested form of accounts annexed to this statement. ***Although the format of the primary accounting statements must follow the format in the appendix (see paragraph 30), the format and content of the notes are not compulsory. The example which follows is for illustration and it is up to each institution to decide the appropriate degree of explanation which should be given in support of the Accounts. However, some funding councils may issue specific instructions about the format of the notes for the institutions for which they have lead accountability.***

Part 5
Application of Accounting Standards – Note of Relevant SSAPs, FRS and UITF Abstracts

This note is provided to assist institutions in determining the relevance of SSAPs and FRS', 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 UITFs, which have the same force as SSAPs and FRS.

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

53 Statements of Standard Accounting Practice (SSAPs) SSAPs 1,3,6,7,10,11,12,14,16,18, 22 and 23 have been withdrawn.

SSAP 2: Disclosure of Accounting Policies

Accounting Policies should be disclosed by way of a note to the accounts. This SORP gives examples of such disclosure.

SSAP 4: Accounting Treatment for Government Grants:

Revenue based grants should be passed through the Income and Expenditure (I/E) 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 should relate. The treatment in the examples accompanying this SORP follows these principles.

SSAP 5: Accounting for VAT

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

SSAP 9: Stocks and Long-term Contracts

This deals with the valuation of stocks, which are normally to be stated at cost or net realisable value if lower. This will be relevant to all institutions, but other parts of the SSAP dealing with valuation rules for long-term contracts are less likely to be relevant.

SSAP 13: Accounting for Research and Development

Costs of research should be written off as incurred. This SSAP is mainly in respect of commercial 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 FRS10).

SSAP 15: Accounting for Deferred Tax

This is unlikely to apply to institutions, except for subsidiary companies.

SSAP 17: Accounting for Post Balance Sheet Events

This will be applicable to institutions. The SSAP sets out the requirements for reporting and, much less likely, for adjusting the accounts in relation to such events.

SSAP 19: Accounting for Investment Properties

This standard may apply to certain institutions. Such properties should be accounted for by annual valuations on open market value basis without depreciation.

SSAP 20: Foreign Currency Translation

This will apply to many institutions. Exchange gains and losses should be taken to the I/E Account. The Accounting Policies of Casterbridge College (attached as an example to the SORP) set out the recommended treatment by institutions.

SSAP 21: Accounting for leases and HP Contracts

This will apply to institutions. Where contracts are treated as operating leases, para 43 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

All institutions are likely to be familiar with this standard already. It is not affected by the changes in accounting for Provisions introduced by FRS 12, but is likely to be superseded by a new standard following consultations on FRED 20.

SSAP 25: Segmental Reporting

Unlikely to apply to institutions.

54 Financial Reporting Standards (FRS')

(note: new FRS' and UITFs are issued regularly. Reference should be made to the web site of the Accounting Standards Board. (asb.org.uk)

FRS 1 (revised): Cash Flow Statements

This applies to all institutions and should already be applied.

FRS 2: Accounting for Subsidiary Undertakings

This will be applicable to many institutions. The consolidated examples in the SORP apply the standard.

FRS 3: Reporting Financial Performance

Sections on exceptional and extraordinary items and prior period adjustments will apply, as will the note of historical cost surpluses and deficits where fixed assets are revalued.

The format followed for income and expenditure accounts should be as in the examples to this SORP.

FRS 4: Capital Instruments

This will be particularly relevant for institutions using low start financing arrangements. It particularly concerns the requirement to allocate the finance costs at a constant rate over the term of the borrowing.

FRS 5: Reporting the Substance of Transactions

The principles of this FRS will apply to all institutions those undertaking any Private Finance Initiative (PFI) or similar projects, should also note that an amendment to FRS 5, entitled ‘Private Finance Initiative and Similar Contracts’ was issued by the Accounting Standards Board in September 1998. This sets out the features of a PFI contract and reviews the principles which should be followed in accounting for the contract and any assets.

FRS 6: Acquisitions and Mergers

This standard appears to refer particularly to companies of different sizes. In the “Not for Profit” sector, business combinations are more likely to be the result of institutions working together, so that merger accounting is likely to be more appropriate. Acquisition accounting would, however, apply where an institution acquires another, particularly where the acquired institution is from another sector and significantly smaller.

FRS 7: Fair values in Acquisition accounting

If the application of FRS 6 leads to Acquisition Accounting, FRS 7 should also be applied.

FRS 8: Related Party Disclosures

The principles apply to institutions, but there could be a major practical problem of definition. Disclosure is required where transactions are material to either party. Although the FRS excludes disclosure of transactions with government departments and their sponsored bodies, the SORP requires disclosure of Funding Council grants.

FRS 9: Associates and Joint Ventures

This FRS may be relevant to certain transactions in which institutions are involved

FRS 10: Goodwill and intangible assets

This could apply directly to institutions, but may be more likely to apply to the activities of subsidiary companies and thus have to be taken into account on consolidation. It includes sections defining when items such as patents, licences, etc can be included in the Balance Sheet.

FRS 11: Impairment of Fixed Assets and Goodwill

This is relevant and institutions will need to consider with their auditors how to establish if there is an indication of impairment.

FRS 12: Provisions, Contingent Liabilities and Contingent Assets

This FRS has applied to all financial statements from year ended July 1999. It changes the former treatment of provisions for long-term maintenance and any other provisions except for Pensions, where SSAP 24 continues to apply.

FRS 13: Derivatives and Other Financial Instruments

This is only likely to be specifically relevant to a very small number of Higher Education institutions since it only applies to listed or publicly traded financial instruments. However, institutions with sophisticated treasury management functions may wish to look to the Standard as providing guidance on best practice.

FRS 14: Earnings per Share

This is not likely to be relevant to institutions

FRS 15: Tangible Fixed Assets

This standard will apply to institutions for financial years ending after 23 March 2000. It deals with the initial measurement of fixed assets and their revaluation (not compulsory). Revaluation if applied must be applied consistently across all assets in a class. Depreciation must be recognised, even if assets have been revalued, to reflect the consumption of the assets’ economic benefits, and also even where cash is being spent to keep the asset in a good state of repair. *(notes 41–46 of the SORP give further details of the application of this standard)*

FRS 16: Current Tax

Current tax should be recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised directly in the statement of total recognised gains and losses. This FRS is unlikely to apply to institutions except where they operate subsidiary companies which have not taken measures to offset their tax liability.

55 Urgent Issues Task Force Abstracts

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 7:	True and fair view override disclosures
UITF Abstract 14:	Disclosure of changes in accounting policy

Appendix

The membership of the HE/FE Board for the SORP (the 'Steering Committee' referred to in the Statement by the ASB in the Preface) is:

Professor John Bull
Vice-Chancellor,
University of Plymouth *(Chairman)*

Dr John Brennan
Director of Further Education Development,
Association of Colleges (AoC)

Dr Tony Bruce
Director of Policy Development,
Committee of Vice-Chancellors and
Principals (CVCP)

Dr Steve Cannon
Secretary and Registrar,
University of Aberdeen

Andrew Clark
Financial Accountant,
Higher Education Funding Council
for England (HEFCE) to December 1999

Simon Clark
Director of Strategic Planning,
North Derbyshire Tertiary College

Andrew Haslehurst
Financial Accountant,
Southampton Institute

Richard Hirst
Director of Resources,
Higher/Further Education Funding
Council for Wales (HEFCW)

Tony Holloway
Assistant Director and Head of Finance,
Further Education Funding Council (FEFC)

Ian Lewis
Head of Finance, HEFCE, from December 1999

Liam McCabe
Director of Financial Appraisal
and Monitoring Services,
Scottish Funding Councils for
Further and Higher Education

Graham Marsden
Partner, PricewaterhouseCoopers

Colin Showell
Director of Finance,
University of Southampton

Andrew Lennard
Accounting Standards Board (Observer)

David Tupman
Policy Adviser, CVCP (Secretary)

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