



INVESTIGATION OF
THE ACCOUNTING ENVIRONMENT

1.0 INTRODUCTION

1.1

This informal report endeavours to examine the current accounting environment that exists in the UK. A combination of both desk and primary research shall be conducted prior to the final compilation and conclusion of the piece of work.

1.2

Specifically, this report will identify the authoritative accounting bodies that exist within the UK. In addition to the roles and missions of these bodies, the standards they create and maintain will also be identified and discussed in terms of their relation to the preparation of the final accounts for J.Browns Catering Ltd.

1.3

The bodies to be examined in this report are:

- The Accounting Standards Board
- The Financial Reporting Council
- The Financial Reporting Review Panel

1.4

The underlying motivation catalysing formation of the aforementioned bodies will be identified, and the primary advantages for their existence related.

1.3

The piece will be concluded and sources identified, with any supplementary information provided in appendices.

2.1 ORIGIN OF AUTHORITATIVE BODIES

2.1.1

The time line below identifies the history and background surrounding accounting bodies.

- 1947** • Companies Act 1947 stipulates that all financial statements prepared public distribution should be “true & fair”.
- 1948 - 1968** • Companies Act policies were slowly recognised as being overly vague, resulting in variegation of reporting methods used in published accounts.
 - Lack of suitable legislation leads to gross inconsistencies of accounting practices.
 - Accurate and reliable assessment of companies’ value and performance became extremely difficult.
 - High profile cases¹ underscore the defective nature of current regulations governing accounting and the need for augmented directives.
- 1969** • The ICAEW² declared the Companies Act too basic to suitably regulate accounting practices.
- 1970 - 1976** • ICAEW formed ASSC (Accounting Standards Steering Committee),
 - First of a total twenty-five Statement of Standard Accounting Practice (SSAP) published in 1970 titled ‘Accounting for Associated Companies’.
 - ASSC merged with the six other major accountancy bodies in the UK and Ireland enhancing uniformity and simplifying procedures, after which it was renamed the ASC (Accounting Standards Committee).
- 1987 - 1990** • ASC became unable to carry out the standard setting role that it was required to, due to increasing pressure on complex accounting issues.
 - ASC was replaced by an Accounting Standards Board (ASB)³ 1990.
 - A Financial Reporting Council (FRC) was created to act as a support for the ASB ensuring the operation is efficient and economic.
 - The Financial Reporting Review Panel (FRRP) was created to assess and assist companies who have been reported to them as having questionable accounting methods.
- 1989** • Revision of Companies Act means FRRP now have legal support for recommending that companies publicly explain or modify their accounting methods.

2.1.2

As the above information illustrates, the development of accounting standards have evolved largely to narrow the possibility for individuality of financial preparation, and representation of worth. Both users and preparers of accounts welcomed this uniformity for a number of reasons.

- Augmented standardisation meant that a more reliable representation could be made as to the actual value of a company at any given time.
- Local and national competitor comparisons become much more straightforward when all companies adhere.
- Company buyouts (such as described in Footnote 1) are carried out with much greater assurance and accuracy that the company to be bought is as successful as quoted - and potentially profitable.
- Internationally speaking, the value and success of a particular country, territory or province can be more accurately represented, aiding international benchmarking etc.

¹ For example, the 1967 merger of Associated Electrical Industries Ltd and General Electrical Company Ltd where the former had published sales projections which were considerably greater than actual figures for the coming periods resulting in substantial losses.

² ICAEW refers to the Institute of Chartered Accountants in England & Wales.

³ The restructuring of bodies in 1987 were as a direct result of the recommendations made by Sir Ron Dearing of the CCAB

2.2 THE ACCOUNTING STANDARDS BOARD

2.2.1

As identified earlier, the ASB replaced the ASC in 1990 in an effort to ensure that the standard setting process was carried out effectively, accurately, and in a professional manner. With two full-time members (a chairperson and technical director) as well as eight part time members the board endeavours to formulate, revise, update and where necessary expunge standards which are widely considered to be obsolete or detrimental to the valuation of assets of a considerable proportion of business entities (or all companies consider it financially unfeasible to comply to the standards). The ASB is recognised as having the authority to issue standards under the Companies Act 1985. The standards issued by the ASB are known as FRS's (Financial Reporting Standards), and the standards that were adopted by the ASB from the ASC are known as SSAPS (Statements of Standard Accounting Practice).

2.2.2

The aims of the ASB - which are in line to aid the preparers, users, and auditors of accounting data - are quoted as being:

- Developing principles to guide it in establishing standards and to provide a framework within which others can exercise judgement in resolving accounting issues.
- Issuing new accounting standards, or amending existing ones, in response to evolving business practices, new economic developments and deficiencies being identified in current practice.
- Addressing urgent issues promptly.

2.2.3

The ASB conducts continuous communication with similar international agencies to ensure that their standards reflect international as well as local trends. They determine what is to be included in accounting standards based on research, public consultation and debates on applicability. They are objective, neutral, and free from any form of bias or influence. Their formal '**Statement Of Aims**' (Published 1991) synopsis their aims as being "To establish & improve standards of financial accounting and reporting for the benefit of users, preparers, and auditors of financial information".

2.3 THE FINANCIAL REPORTING COUNCIL

2.3.1

The standard setting and monitoring process is performed in the UK by the FRC, and specifically by the two subsidiary organisations, the ASB (above) and the FRRP (discussed later). The FRC quotes their aims to be:

- To promote good financial reporting, and in that context from time to time make public reports on reporting standards. In that role it would from time to time make representations to government on the current working of legislation and on any desirable development of it;
- To provide guidance to the accounting standards board on work programmes and on broad policy issues;
- To verify that the new arrangements are conducted with efficiency and economy and that they are adequately funded.

2.3.2

Although the hierarchical arrangement of the three accounting bodies upon appearance suggests that the FRC is the superior body (see appendices 1) it does in fact have no say at all over the detail of any individual standard, nor has it the authority to produce its own, or to amend existing guidelines (it is however in the interest of the ASB to secure the widest possible support for standards it issues, and that includes the FRC).

2.3.3

Fundamentally, the role of the FRC is widely recognised as being the financier to itself, and its subsidiary companies. The group of organisations are supported and funded jointly by the accountancy profession (through the Consultative Committee of Accountancy Bodies), the City (the London Stock Exchange together with the banking and investment community) and the Government. Additionally, the FRC provides the forum for discussion and support for accounting standards.

2.4 THE FINANCIAL REPORTING REVIEW PANEL

2.4.1

The second subsidiary of the FRC is the FRRP. Responsible for investigating any departure from standard accounting practice, the FRRP has authority invested from the Companies Act 1989 to objectively scrutinise the published accounts of companies.

2.4.2

The respective companies, must by law state in their accounts whether or not they have been prepared in accordance with applicable standards, and to provide justifications for any departures, or for changing their reporting policies for any reason. The FRRP does not monitor the activities of companies; instead it will examine cases which are brought to its attention in ways such as:

- Through qualified audit reports or disclosed non-compliance with accounting standards or other requirements;
- By individuals or corporate bodies
- Through press comment

2.4.3

When the FRRP feels there is good reason to question the practice of a company, it will give companies a fair hearing to argue its case. If the review panel does not accept the company's defence, then it is able under the Companies Act 1989 to apply to the court for an order on the grounds that the accounts do not show a true and fair view, forcing them to prepare revised accounts and circulate them to all persons who were likely to have relied on the original accounts.

2.4.4

Since the panel's inception, 378 cases have been brought to its attention, 142 of which were not pursued beyond initial examination and 181 were resolved without the intervention of the courts, and without the issue of a press notice.

2.5 SYNOPSIS OF STANDARDS IN ISSUE

2.5.1

What follows are examples some standards which are currently in operation in the UK, both FRS's & SSAPs. For a comprehensive listing, see appendices 2.

2.5.2.1

SSAP 12 – Accounting for Depreciation - Issued December 1977 - Withdrawn February 1999

SSAP 12 sets out the rules for depreciating tangible fixed assets such as property and machinery. It defines depreciation as '**the measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passing of time or obsolescence through technological or market changes**'. Depreciation is required to be charged in the profit and loss account. Essentially this standard ensures that companies do not add the cost value of assets to the value of the company year on year, when in actual fact the asset itself is worth less due to wear and tear, age, and technological limitations.

2.5.3.1 - SSAP 2 – Disclosure of Accounting Policies

Issued November 1971

Amended November 1997

Amended December 1998

Will be superseded by FRS 18

It is crucial to the successful interpretation and representation of financial accounts that those who use them should be aware of the main assumptions on which they are based. The purpose of SSAP 2 is to assist such understanding by promoting improvement in the quality of financial information disclosed. It seeks to achieve this by establishing a standard accounting practice the disclosure in the financial accounts of clear explanations of the accounting policies followed in so far as these are significant for the purpose of giving a true and fair view.

2.5.3.2

Essentially this standard means that the publishing company is obliged to provide detailed descriptions of the accounting methods, policies and procedures used to produce the published figures. The company must also justify any departure from accounting practice, or any modifications on past policies.

2.5.4.1 - SSAP 13 – Accounting for Research & Development

Issued December 1977

Revised January 1989

Amended November 1997

Amended December 1998

SSAP 13 offers a framework which preparers of accounts must adhere to in respect of research and development expenditure.

2.5.4.2

The term 'research and development' is used to cover a wide range of activities, including those in the services sector. Classification of expenditure is often dependent on the type of business and its organisation. However, it is generally possible to recognise three broad categories of activity, namely pure research, applied research and development.

2.5.4.3

Expenditure on pure and applied research should be written off in the year of expenditure through the profit and loss account.

2.5.4.4

Development expenditure should also be written off in the year of expenditure except in certain strictly defined circumstances. In situations where all the relevant criteria are met, it is permissible to defer development expenditure to the extent that its recovery can reasonably be regarded as assured. Such deferred development costs must be amortised in future years.

2.5.5.1 – SSAP 25 Segmental Reporting

Issued June 1990

Amended November 1997

Amended December 1998

In today's ever changing business environ (where the trend is or global consolidation), many entities carry on several classes of business or operate in several geographical areas with different rates of profitability, different opportunities for growth and different degrees of risk. It is not usually possible for the user of the financial statements of such an entity to make judgements about either the nature of the entity's different activities or their contribution to the entity's overall financial results unless the financial statements provide some segmental analysis of the information they contain.

2.5.5.2

The purpose of SSAP 25 is to provide information to assist users of financial information to make judgements about the nature of the entity's different activities and their contributions to the entity's overall financial position. SSAP 25 therefore requires the disclosure of turnover, segment result and segment net assets by class of business and by geographical segment.

2.5.6.1 – FRS 18 – Accounting Policies

Issued December 2000

FRS 18 deals essentially with the selection, application and disclosure of accounting policies of a company. The standard dictates that an entity adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, and that the accounting policies adopted are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the entity's particular circumstances. This standard also endeavours to ensure sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

2.5.6.2

The FRS requires specific disclosures about the accounting policies followed and changes to those policies. It also requires, in some circumstances, disclosures about the estimation techniques used in applying those policies.

2.5.7.1 – FRS 6 – Acquisitions & Mergers

Issued September 1994

Amended November 1997

Amended December 1998

FRS 6 sets out the circumstances in which the two methods of accounting for a business consolidation (acquisition accounting and merger accounting) are to be used. A business consolidation is the amalgamation of separate entities into one economic entity as a result of one entity uniting with another or obtaining control over another entity's assets and operations.

2.5.7.2

The objective of the FRS is to ensure that merger accounting is used only for 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 that must be met for merger accounting to be used. When those five criteria are met merger accounting should be used. If those five criteria are not met then acquisition accounting should be used.

2.5.8.1 – FRS 2 – Accounting for Subsidiary Undertakings

Issued June 1992

Amended November 1997

Amended July 1998

Amended December 1998

Amended December 2000

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. In general an investor that controls an investee entity is its parent and should account for that entity as a subsidiary. The FRS also sets out the manner in which consolidated financial statements are to be prepared.

2.5.9.1 – FRS 1 – Cash Flow Statements

Issued September 1991

Revised October 1996

FRS 1 requires reporting entities within its scope to prepare a cash flow statement in the manner set out in the FRS. Cash flows are increases or decreases in amounts of cash, and cash is cash in hand and deposits repayable on demand at any qualifying institution less overdrafts from any qualifying institution repayable on demand. An entity's cash flow statement should list its cash flows for the period classified under the following standard headings:

- Operating activities
- Taxation
- Acquisitions and disposals
- Management of liquid resources
- Returns on investments and servicing of finance
- Capital expenditure and financial investment
- Equity dividends paid
- Financing

3.0 CONCLUSION

3.1

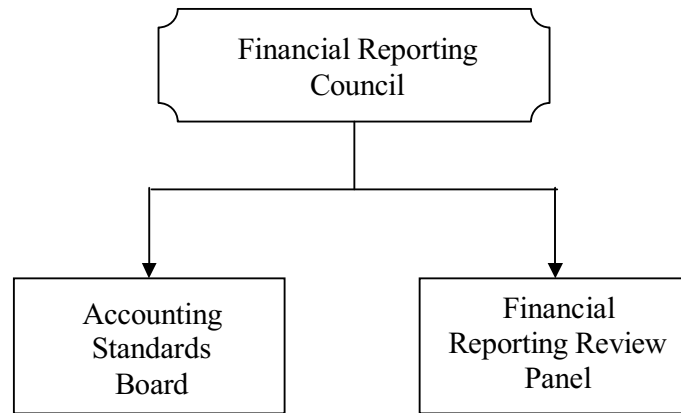
The UK accounting environment has evolved immensely over the past fifty years to benefit the users, preparers and auditors of financial information. Since the inception of the standards agencies the protocol, and indeed the agencies themselves have developed to reflect the needs of the companies and the general business accounting environ.

3.2

The standards identified in this report are in place to ensure that uniformity, honesty, and accuracy prevail in the accountancy profession enhancing clarity and reliability of information. All of the standards specifically mentioned, (as well as those identified in the appendices) must be taken into consideration when the final accounts for J.Browns Catering Ltd are being prepared. Ensuring this will result in more faith in the company from shareholders, and it will limit the possibility of adverse legal implications.

APPENDICES

Appendices 1	Standards agencies hierarchal structure
Appendices 2	Full listing of current accounting standards



Financial Reporting Standards

FRS 19 - Deferred Tax
FRS 18 - Accounting Policies
FRS 17 - Retirement Benefits
FRS 16 - Current Tax
FRS 15 - Tangible Fixed Assets
FRS 14 - Earnings per Share
FRS 13 - Derivatives and other Financial Instruments: Disclosures
FRS 12 - Provisions, Contingent Liabilities and Contingent Assets
FRS 11 - Impairment of Fixed Assets and Goodwill
FRS 10 - Goodwill and Intangible Assets
FRS 9 - Associates and Joint Ventures
FRS 8 - Related Party Disclosures
FRS 7 - Fair Values in Acquisition Accounting
FRS 6 - Acquisitions and Mergers
FRS 5 - Reporting the Substance of Transactions
FRS 4 - Capital Instruments
FRS 3 - Reporting Financial Performance
FRS 2 - Accounting for Subsidiary Undertakings
FRS 1 (Revised 1996) - Cash Flow Statements
FRSSE (Effective March 2000) -
Financial Reporting Standard for Smaller Entities

Statements of Standard Accounting Practice (SSAPs)

SSAP 25 - Segmental reporting
SSAP 24 - Accounting for pension costs
SSAP 21 - Accounting for leases and hire purchase contracts
SSAP 20 - Foreign currency translation
SSAP 19 - Accounting for investment properties
SSAP 17 - Accounting for post balance sheet events
SSAP 15 - Status of SSAP 15
SSAP 13 - Accounting for research and development
SSAP 12 - Accounting for depreciation
SSAP 9 - Stocks and long-term contracts
SSAP 5 - Accounting for value added tax
SSAP 4 - Accounting for government grants
SSAP 2 - Disclosure of accounting policies

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