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# CHAPTER 1

## Introduction

Section 95 of the [Local Government Act 2003](#) gives local authorities the power to trade in function-related activities through a company. This can be a company limited by shares or limited by guarantee. An increasing number of councils are setting up companies limited by shares for commercial trading or as a vehicle for delivering services, and this publication explores the financial reporting of these types of trading companies.

This publication explains the legal and regulatory frameworks governing company financial reporting. It also details the presentation and format of company financial statements and explains how these differ from those used by local authorities.

This publication also looks at the differences between the accounting standards set by the International Accounting Standards Board (IASB) and the *Code of Practice on Local Authority Accounting in the United Kingdom* ('the CIPFA/LASAAC Code') when reporting for trading companies. Understanding the differences is crucial when preparing financial statements for trading companies.

Companies in the UK are governed by the [Companies Act 2006](#), and this guidance provides a practical understanding of this Act so that local authorities can check that their trading companies comply with legislation and operate within the correct legal framework.

This publication is specifically written for local authority accountants who will be preparing trading companies' financial statements. It will also be useful to anyone in the public sector who is unfamiliar with the requirements, standards and preparation of private sector accounts, but equally to accountants who have just joined the public sector and are not familiar with the CIPFA/LASAAC Code.