

Appendix A IFRSs with limited application to Local Authorities

- 10.1.2.159 Where a material item would be recognised, measured or presented differently under the Code than the SORP 2009, a local authority shall restate the opening IFRS balance sheet, the comparative balance sheet and the comparative Comprehensive Income and Expenditure Statement in accordance with the requirements of the relevant IFRS.

Appendix A deals with those accounting standards that have limited application to local authorities. As such, it is anticipated that there will be few transition issues. The following guidance sets out limited guidance on these standards, however where authorities have undertaken transactions that fall within the scope of these standards they will need to consider the detailed transition arrangements that are required.

IAS 12 Income Taxes, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciated Assets and SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders

As local authorities are not liable for corporation or income tax, IAS 12 and the various interpretations will not apply to a local authority's own accounts. However, where authorities prepare group accounts that include entities that are subject to corporation or income tax (for example, local authority companies), the standards will be relevant.

Group accounts need to be prepared on the basis of consistent accounting policies, and therefore taxation transactions, assets and liabilities (where material) will need to be reported on an IAS 12 basis.

Local authority companies may choose to follow IFRS; in such cases, taxation items can be consolidated without adjustment.

However, where local authority companies follow UK GAAP, adjustments may be required. Adjustments for current tax items are unlikely, as IAS 12 and FRS 16 are similar (although the presentation requirements are different). The treatment of deferred taxation under IAS 12 is different to that under FRS 19 and may need to be adjusted if the amounts could be material to the group accounts.

IAS 21 The Effects of Changes in Foreign Exchange Rates

FRS 23 was based on IAS 21 and is almost identical to it. No transition arrangements are expected to apply.

IAS 29 Financial Reporting in Hyperinflationary Economies and IFRIC 7 Applying the Restatement Approach under IAS 29

FRS 24 was based on IAS 29 and is almost identical to it. No transition arrangements are expected to apply.

IAS 41 Agriculture

The Code includes the following paragraph in respect of IAS 41:

- A.1.5 *IAS 41 Agriculture sets out the accounting requirements for agricultural activities undertaken for commercial gain. Biological assets that are not held for agricultural activity (eg trees in*

public parks; police horses and police dogs; and the management of biological assets held for research, experimental and public recreation purposes, including breeding for the preservation of species and raising in game parks and zoos) are not subject to the requirements of IAS 41. Where material, these assets shall be accounted for in accordance with IAS 16 Property, Plant and Equipment.

Many authorities will not undertake agricultural activities for gain; in those cases no transition arrangements will arise.

Where authorities do undertake agricultural activities for gain, they will need to account for those biological assets under IAS 41. IAS 41 requires biological assets to be measured at fair value, with changes in fair value being taken directly to Surplus or Deficit on the Provision of Services (a similar approach to that required by IAS 40 Investment Properties).

IFRS 2 Share-based Payment

IFRS 20 was based on IFRS 2 and is almost identical to it. No transition arrangements are expected to apply.

IFRS 4 Insurance Contracts

IFRS 4 Insurance Contracts specifies the financial reporting for insurance contracts by an entity that issues such contracts. The standard does not cover insurance contracts held by a policyholder. Appendix A of IFRS 4 defines an insurance contract as:

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Paragraph 4 of IFRS 4 states that:

An entity shall not apply this IFRS to: ...

- (d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 39, IAS 32 and IFRS 7 or this Standard to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable...*

The SORP previously required local authorities to account for financial guarantees as financial instruments rather than as insurance contracts, and it is therefore likely that authorities will not account for existing financial guarantees as insurance contracts.

In the unusual circumstances that a local authority (or local authority company in the case of the group accounts) has issued insurance contracts, these will need to be accounted for in line with IFRS 4. If this differs from the accounting followed under UK GAAP, the accounts will need to be restated.

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 6 Exploration for and Evaluation of Mineral Resources specifies the accounting requirements for expenditure incurred whilst an entity is exploring for and evaluating mineral resources; it does not apply after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. This standard is not expected to be relevant to local authorities.

In the unusual circumstances that a local authority (or local authority company in the case of the group accounts) has undertaken the exploration for and evaluation of mineral resources, these activities will need to be accounted for in line with IFRS 6. If this differs from the accounting followed under UK GAAP, the accounts will need to be restated.

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