3.4 Presentation of Financial Statements

10.1.2.21 Amounts disclosed in the financial statements will need to be restated in accordance with other sections of the Code. Authorities will need to prepare comparative segment information (including a subjective analysis) to be presented in the financial statements.

The accounting treatment for various items under the Code differs from that previously adopted under the SORP. Amounts presented in the financial statements will need to be restated in line with the Code requirements; detailed guidance on these restatements is provided elsewhere.

Paragraphs 3.4.2.82 – 3.4.2.92 of the Code set out the requirements for reporting information on a segment basis within the notes to the accounts. This will be based on internal management reporting. Authorities will need to prepare comparative information for inclusion in the first set of IFRS-based accounts.

The format of the financial statements is different under the Code to that used under the SORP. Using the respective paragraph references in the Code, a mapping of the single entity SORP Income and Expenditure Account and Statement of Total Recognised Gains and Losses to the Code Comprehensive Income and Expenditure Statement; and the single entity SORP Balance Sheet and Cash Flow Statement (direct and indirect method) to their Code equivalents is provided in the spreadsheet. The formats for the financial statements set out in the Code are the minimum disclosure requirements, and authorities should consider whether it is appropriate to include more detail on the face of the statements.

One specific restatement that is not covered elsewhere in the transition guidance is the requirement to prepare the cash flow statement based on cash and cash equivalents. This is covered in the following paragraphs:

Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

10.1.2.22 The Code (following IFRS 1) requires local authorities to classify cash and cash equivalents in their opening IFRS balance sheet (1 April 2009) in accordance with section 3.4 of the Code (see also IAS 7). Reclassifying items to cash equivalents following IAS 7 is a change of accounting policy that will require authorities to restate their opening balances in respect of cash and cash equivalents.

The Code does not specify any criteria to be followed when determining items to be treated as cash equivalents. The relevant paragraphs are as follows:

*3.4.2.2 **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*

3.4.2.14 Cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.

3.4.2.15 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. There are no strict criteria to follow relating to the nature and maturity of items treated as cash equivalents and as such an *authority shall disclose the policy that it adopts in determining the composition of cash equivalents.*

Paragraph 7 of IAS 7 provides further guidance:

7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

'Readily convertible' is generally taken to mean that the investment can be converted into cash without an undue period of notice, and that any penalties for early withdrawal are insignificant. An investment that can be 'called' would normally meet the definition of a cash equivalent; a one month investment that carried a significant penalty for early repayment would not.

Having regard to the definition and guidance above, authorities will need to determine their own accounting policy with regard to cash equivalents. IAS 7 includes as an example investments with 'a short maturity of, say, three months or less' but this is not prescriptive.

10.1.2.23 An authority shall reclassify short term investments as cash equivalents following their accounting policy of determining the composition of cash equivalents.

The entries required to restate the opening 1 April 2009 Balance Sheet are as follows:

Dr Cash and Cash Equivalents
Cr Short-Term Investments

With the value of those short-term investments reclassified as cash equivalents

Step 2 - Restate Comparative Figures for 2009/10

10.1.2.24 Following the restatement in step 1, short term investments held on the balance sheet at 31 March 2010, shall be reclassified as cash equivalents following an authority's accounting policy of determining the composition of cash equivalents.

The entries required to restate the 31 March 2010 Balance Sheet are as follows:

Dr Cash and Cash Equivalents
Cr Short-Term Investments

With the value of those short-term investments reclassified as cash equivalents

In addition, the Cash Flow statement under the Code balances to the total of cash and cash equivalents, rather than to the total of cash as was the case under the SORP. The comparative 2009/10 Cash Flow statement will therefore need to be restated to balance to the total of cash and cash equivalents as well as to match the revised format under the Code.

Correction

Authorities should note that the Balance Sheet format in paragraph 3.4.2.53 of the Code includes item (o) Provisions within the current assets grouping. This item should be included within the current liabilities grouping.