

## **A IFRSs WITH LIMITED APPLICATION TO LOCAL AUTHORITIES**

### **A.1 Introduction**

- A.1.1 A small number of IFRSs are only expected to apply to local authorities in limited circumstances. As such, the Code does not include detailed accounting requirements for these IFRSs. Where an IFRS is relevant to a local authority, the authority shall comply with the requirements of the relevant IFRS. The standards not covered in detail in the Code are:
- A.1.2 *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* relate to taxes on an entity's income (for example, corporation tax). They do not relate to accounting for VAT, Council Tax or Non-Domestic Rates, which are covered elsewhere in the Code. *IAS 12* is not expected to be relevant to an authority's single entity accounts. Group entities will account for their own tax; however a consolidation adjustment may be required in the group accounts where group entities have accounted for tax under UK GAAP.
- A.1.3 *IAS 21 The Effects of Changes in Foreign Exchange Rates* relates to accounting for exchange rates and exchange rate movements. *IPSAS 4* provides additional guidance for the public sector. Where local authorities have foreign currency transactions, they shall use the spot exchange rate at the date of the transaction to record the transaction in pounds sterling. For more complex foreign currency transactions, authorities shall refer to *IAS 21*.
- A.1.4 *IAS 29 Financial Reporting in Hyperinflationary Economies* and *IFRIC 7 Applying the Restatement Approach under IAS 29* relate to financial reporting in hyperinflationary economies. *IPSAS 10* provides additional guidance for the public sector. These standards are not expected to be relevant to local authorities.
- 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 (e.g. 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*.
- A.1.6 *IFRS 2 Share-based Payment* sets out the accounting requirements for payments that are made by the transfer of equity instruments. *IFRS 2* will only apply to local authorities in the rare circumstance that they transfer shares or other equity instruments in a subsidiary or associate in return for goods or services received.
- A.1.7 *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. A number of transactions such as giving a financial guarantee and product or service warranties are outside the scope of *IFRS 4*.

*Interpretation and adaptation for the Public Sector Context*

A.1.8 The following interpretations apply to IFRSs covered by this section of the Code:

A.1.9 *IAS 21 The Effects of Changes in Foreign Exchange Rates*: Local authorities are required to account for transactions in pounds sterling, and to present their financial statements in pounds sterling. The alternative approaches available in *IAS 21* are not permitted by the Code.

A.1.10 *IAS 29 Financial Reporting in Hyperinflationary Economies*: HM Treasury will notify classification of the UK economy as hyperinflationary for the purposes of *IAS 29* if appropriate.

**A.2 *Accounting Requirements***

A.2.1 Where material, authorities shall account for assets, liabilities, income and expenses in accordance with the relevant standards.

**A.3 *Statutory Accounting Requirements***

A.3.1 There are no statutory accounting requirements in relation to transactions covered by this section of the Code.

**A.4 *Disclosure Requirements***

A.4.1 Where material, authorities shall disclose the information required by the relevant standards.

**A.5 *Statutory Disclosure Requirements***

A.5.1 There are no statutory disclosure requirements in relation to transactions covered by this section of the Code.

**A.6 *Changes since SORP 2009***

A.6.1 Under *IAS 12*, the criteria for recognising deferred tax are different to those under UK GAAP. This will only be relevant to a group entity, but may need to be reflected in the group accounts.

A.6.2 There are no changes to the accounting arrangements in SORP 2009 in respect of the effect of changes in foreign exchanges rates; financial reporting in hyperinflationary economies; and share-based payment.

A.6.3 The SORP 2009 did not include any specific accounting requirements in respect of agriculture or insurance contracts.

## **Transition Arrangements**

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.