

3.4 PRESENTATION OF FINANCIAL STATEMENTS

Current liabilities

3.4.2.58 An authority shall classify a liability as current when:

- a) it expects to settle the liability in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)
- b) it holds the liability primarily for the purpose of trading
- c) the liability is due to be settled within 12 months after the reporting period, or
- d) the authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An authority shall classify all other liabilities as long term.

3.4.6 Changes since the 2010/11 Code

3.4.6.1 The 2010/11 Code did not require segment assets to be reported unless they were reported internally; this was an interpretation of IFRS 8. Following an amendment to IFRS 8 by the Improvements to IFRS issued in April 2009 (and EU adopted in March 2010), IFRS 8 only requires segment assets to be reported where reported internally. The interpretation is therefore no longer required and has been removed; this does not alter the disclosure requirements.

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.4.4 The existing categories of assets are sub-categories, being council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets, community assets, assets under construction, and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale). Authorities shall disclose the information set out in paragraph 4.1.4.3 on this basis.

Deleted: 3.4.1.6 The requirements of IFRS 8 in relation to reporting segment assets are based on a presumption that entities will be reporting segment assets internally. This is often not the case in local authorities, and the Code requirements therefore do not include this assumption. Instead, the Code requires segment assets and/or liabilities to be presented in the financial statements only where they are reported internally.¶

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Deleted: introduces the Movement in Reserves Statement. This statement, along with any related notes, replaces the Statement of Movement on the General Fund Balance and the note on the movement in reserves.¶

3.4.6.2 The Code introduces the Comprehensive Income and Expenditure Statement, which replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.¶

3.4.6.3 The format of the Balance Sheet and the Cash Flow Statement are different under the Code than under the SORP.¶

3.4.6.4 The Code requires 'cash and cash equivalents' to be presented in the Balance Sheet and reported as cash flows in the Cash Flow Statement. The SORP (following FRS 1 *Cash Flow Statements*) did not use the concept of cash equivalents and required the movement of cash (cash in hand and deposits repayable on demand, less overdrafts) to be reported in the Cash Flow Statement.¶

3.4.6.5 The Code requires an authority to present a Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when it applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The SORP did not include this requirement.¶

3.4.6.6 The Code has different requirements to the SORP in relation to the notes to the financial statements; these include the disclosure of key sources of estimation uncertainty (see paragraph 3.4.2.80) and significant judgements in applying accounting policies (see paragraph 3.4.2.78).¶

3.4.6.7 The Code introduces segment reporting, which requires a subjective analysis to be included in the notes.¶

3.4.6.8 The Code does not permit authorities to present any items of income or expenditure as 'extraordinary'.

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4.2 LEASES AND LEASE-TYPE ARRANGEMENTS

4.2.2.7 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- 1) the lease transfers ownership of the asset to the lessee by the end of the lease term
- 2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised
- 3) the lease term is for the major part of the economic life of the asset
- 4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, and
- 5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

4.2.2.8 The examples above are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, if the lease transfers ownership of the asset for a variable payment equal to its fair value, the lessee may not have substantially all risks and rewards incidental to ownership. Lease classification is made at the inception of the lease.

4.2.2.9 Leases of land and buildings are classified as finance or operating leases in the same way as leases of other assets. However the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. In determining whether the land element is an operating or finance lease, an important consideration is that land normally has an indefinite life. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents

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prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

4.2.6 Changes since the 2010/11 Code

4.2.6.1 Guidance on lease classification has been updated to include more guidance and to reflect amendments made by *Improvements to IFRSs* issued in April 2009 (and EU approved in March 2010). These changes are not expected to result in any changes to lease classification as they merely provide additional guidance. If, in exceptional cases, they would result in a different classification of a lease of land, the classification of the lease shall be reassessed in line with paragraph 68A of IAS 17.

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Deleted: The Code requires the land and buildings elements of a lease of land and buildings to be classified and accounted for separately. This requirement did not exist in the SORP, and a lease of land and buildings was classified and accounted for as a single lease.¶

4.2.6.2 One of the factors that indicates a lease is a finance lease is if 'the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset'. Under the SORP, 'substantially all' was quantified as 'normally 90% or more'. This quantitative test does not apply under the Code, and authorities will need to use professional judgement when assessing 'substantially all'.¶

4.2.6.3 Under the Code, finance income shall be calculated so as to produce a constant periodic rate of return on the net investment. Under the SORP, the finance income was calculated so as to give a constant periodic rate of return on the net cash investment. This difference in treatment may lead to income being recognised in different periods.¶

4.2.6.4 The Code requires initial direct costs to be added to the carrying amount of the asset in some circumstances. This was not covered by the SORP, but was a permissible (rather than required) treatment under SSAP 21 *Accounting for Leases and Hire Purchase Contracts*.¶

4.2.6.5 The Code specifies the accounting treatment for sale and leaseback transactions. The accounting treatment was not covered by the SORP, but was set out in SSAP 21. The requirements of the Code are consistent with those of SSAP 21.¶

4.2.6.6 The Code specifies the accounting treatment for arrangements containing a lease (IFRIC 4). This was not covered by the SORP, but similar results may have arisen from an application of FRS 5 *Reporting the Substance of Transactions*.

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4.4 INVESTMENT PROPERTY

4.4.3.1 Statute and proper practice restrict the use of capital receipts, and prescribe the charges that can be made to the General Fund (see part 2 of Appendix B for the legislative basis). To comply with these restrictions, the gain or loss on derecognition of an investment property shall be reversed out of the General Fund. The General Fund shall be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on derecognition of the investment property (excluding any costs of disposal which are a proper charge to the General Fund). The double entries are a credit to the Capital Receipts Reserve of an amount equal to the disposal proceeds and a debit to the Capital Adjustment Account equal to the carrying amount of the investment property.

4.5 INTANGIBLE ASSETS

4.5.1 Introduction

4.5.1.1 Authorities shall account for intangible assets in accordance with IAS 38 *Intangible Assets*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 31 provides additional guidance for the public sector.

4.9 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

4.9.4.2 An authority shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

4.9.4.3 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to non-current assets held for sale:

- 1) The breakdown of any revaluation gain or loss recognised in accordance with paragraphs 4.9.2.21 and 4.9.2.22.

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6.4 POST-EMPLOYMENT BENEFITS

6.4.4 Changes since SORP 2009

6.4.4.1 Whilst there have been no changes to the accounting requirements included in the Code, there have been amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Where authorities have transactions that require them to refer directly to IFRS, they will need to consider these amendments.

Deleted: The 2009 SORP included the Northern Ireland Local Government Officers Superannuation Scheme, which provides defined benefit pensions, as one that met the FRS 17 requirement to be accounted for by authorities as if it were a defined contribution scheme. For 2010/11 the Northern Ireland Local Government Officers Superannuation Scheme does not meet the IAS 19 requirements to be accounted for by authorities as if it were a defined contribution scheme and consequently authorities are required to account on a defined benefit basis. This will result in a different charge to Surplus or Deficit on the Provision of Services for pension costs; actuarial gains and losses being taken to Other Comprehensive Income and Expenditure; and the Balance Sheet including a net defined benefit pension liability or asset.¶

CHAPTER SEVEN FINANCIAL INSTRUMENTS

7.1.1 Introduction

7.1.1.1 Authorities shall account for financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 28, IPSAS 29 and IPSAS 30 provide additional guidance for the public sector. The 2007 SORP adopted FRS 26 *Financial Instruments: Recognition and Measurement*, FRS 25 *Financial Instruments: Presentation* and the predecessor of FRS 29 *Financial Instruments: Disclosures* in the 2007 SORP. Where they continue to be relevant the transitional provisions of the UK standards adopted by the 2007 SORP remain. In particular, recognition and derecognition decisions prior to 1 April 2006 need not be reconsidered.

6.4.4.2 The net impact of the changes will be a charge (or credit) to the District Fund unless the Northern Ireland Department of the Environment introduces regulations or an accounts direction requiring the charge to the District Fund to be calculated on a different basis. If such a regulation or accounts direction is introduced, authorities shall follow the regulations or accounts direction.

Changes since the 2010/11 Code.

7.1.1.6 Additional disclosures are required where the level of concessionary loans granted by an authority is material.

Deleted: The transitional provisions contained in paragraphs 103 to 108c of IAS 39 shall not be used.

7.1.1.7 Some forward contracts relating to a business acquisition are excluded from the scope of this Chapter.

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7.1.1.8 In addition, authorities should note that there have been amendments to IAS 39, IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*. Where an authority

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applies IFRS directly, it will need to refer to these amendments.

What the section and chapter covers

7.1.1.10 This first section of chapter seven on financial instruments covers:

- a) scope of the financial instruments standards and this Code chapter
- b) initial recognition and measurement of financial instruments
- c) classification of financial instruments
- d) hedge accounting
- e) derivatives and embedded derivatives
- f) definitions of the key terms used in the chapter.

Chapter seven contains three further sections covering:

Section 2 – Accounting for financial liabilities after initial recognition

Section 3 – Accounting for financial assets after initial recognition

Section 4 – Presentation and disclosures.

Scope exclusions

7.1.2.2 Some types of financial instrument covered by IAS 39 are not covered in detail by the Code because they are not relevant to entities that do not issue equity instruments. The applicable IFRS shall be followed if circumstances were such that the provisions concerning equity instruments became relevant, eg in group accounts (see Code chapter nine – Group Accounts). This Code chapter does not cover the following types of financial instrument since they are within the scope of other accounting standards rather than IAS 39 and are dealt with elsewhere in the Code. These are:

- a) Interests in subsidiaries, associates and joint ventures, which are covered by Code chapter nine – Group Accounts.
- b) Rights and obligations under leases, which are covered by section 4.2 of the Code, except for lessors' lease receivables with respect to the derecognition and impairment provisions of this chapter; lessees' lease payables with respect to the derecognition provisions; and derivatives that are embedded in leases.
- c) Employers' rights and obligations under employee benefit plans, which are covered by Code chapter six.
- d) Loan commitments, unless they can be settled net or there is a past practice of selling the resulting loans shortly after origination or the commitment is to provide at below market interest rate. However, all loan commitments are subject to the derecognition provisions of this chapter. Loan commitments not within the scope of this chapter (and IAS 39) shall (where onerous) be accounted for in accordance with the

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provisions of section 8.2 of the Code and IAS 37 on onerous contracts (paragraphs 66 to 69 of IAS 37 refer).

- e) Contracts to buy or sell non-financial items (eg commodity futures contracts) are outside the scope of this chapter unless they can be settled net and are not entered into and held for the purposes of the receipt or delivery of a non-financial item in accordance with the authority's expected purchase, sale or usage requirements.
- f) Financial instrument contracts and obligations under share-based transactions to which Code Appendix A, paragraph A.1.6 applies.
- g) Rights and obligations arising under an insurance contract as defined in IFRS 4 *Insurance Contracts* other than a financial guarantee contract that meets the definition of a financial guarantee contract under paragraphs 7.2.4.1 to 7.2.4.4 of this chapter of the Code.
- h) Rights to receive reimbursement of expenditure required to be made to settle a liability recognised as a provision in accordance with section 8.2 of the Code, or for which in an earlier period, was recognised as a provision.
- i) Special considerations apply in respect of receivable and payables arising from non-exchange transactions such as council tax (see sections 5.3 and 8.1 of the Code).

j) Forward contracts between an acquirer and a vendor in a business combination selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date (see chapter nine of the Code).

7.1.6 Derivatives and Embedded Derivative

7.1.6.8 Eleven examples of embedded derivatives that shall or shall not be required to be separated from the host instrument and accounted for separately since the embedded derivative does not have characteristics and risks which are closely related to the host contract can be found in Section C of the implementation guidance of IAS 39. This implementation guidance shall be considered when an authority determines whether an embedded derivative is required by the Code to be separated and accounted for separately. An authority shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the authority first becomes a party to the contract. Subsequent reassessment is prohibited unless there is either (a) a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract; or (b) a reclassification of a financial asset out of the fair value through profit or loss category, in which cases an assessment is required. In considering whether to reassess an embedded derivative, authorities shall apply IFRIC 9 *Reassessment of Embedded Derivatives*.

7.1.7 Hedge Accounting

7.1.7.3 It is unlikely that an authority will be involved in hedges of a net investment in a foreign operation, but if they are the authority shall apply IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

Balance Sheet disclosures

Categories of financial assets and financial liabilities

7.4.2.2 The carrying amounts of each of the following categories shall be disclosed either in the Balance Sheet or in the notes to the accounts:

- a) loans and receivables; where material, the carrying amount of concessionary loans granted by the authority shall be disclosed separately
- b) available-for-sale financial assets
- c) unquoted equity investment at cost
- d) financial assets at fair value through profit or loss (if any)
- e) financial liabilities at amortised cost
- f) financial liabilities at fair value through profit or loss (if any).

Where an authority separately discloses the carrying amount of concessionary loans granted by the authority, it shall also disclose:

- (a) A reconciliation between the opening and closing carrying amounts of the concessionary loans, including:
 - (i) Nominal value of new loans granted during the period;
 - (ii) The fair value adjustment on initial recognition;
 - (iii) Loans repaid during the period;
 - (iv) Impairment losses recognized;
 - (v) Any increase during the period in the discounted amount arising from the passage of time; and
 - (vi) Other changes.
- (b) Nominal value of the loans at the end of the period;
- (c) The purpose and terms of the various types of loans; and
- (d) Valuation assumptions.

APPENDIX A: IFRSs WITH LIMITED APPLICATION TO LOCAL AUTHORITIES

A.1.5 IAS 41 *Agriculture* sets out the accounting requirements for agricultural activities undertaken for commercial gain. IPSAS 27 provides additional guidance for the public sector. 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*.

A.6 CHANGES SINCE THE 2010/11 CODE

A.6.1 Whilst there have been no changes made to this section of the Code, authorities should be aware that IFRS 2 *Share-based Payment* has been amended by the *Improvements to IFRSs* issued in April 2009 and by *Group Cash-settled Share-based Payment Transactions* issued in June 2009 (both adopted by the EU in March 2010).

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A.6.2 There are no changes to the accounting arrangements in SORP 2009 in respect of the effect of changes in foreign exchange 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, mineral resources or insurance contracts.