HMRC - CFM22510 - Borrowers: Accounting Standards Overview

The following guidance covers Old UK GAAP (applied before 2015) where FRS 26 was not applied.

Overview of old UK GAAP for borrowers

This section of the loan relationships accounting guidance explains how the borrower accounts for its loan relationships. It sets out the basic principles and gives examples of how this is applied to different types of loans.

This section of the guidance deals only with UK GAAP post 1 January 2005 for entities that are not applying FRS 26. You should not use it for companies that are applying FRS 26 or for periods covered by New UK GAAP, see CFM20010.

Accounting standards

FRS 4: ‘Capital Instruments’ is the principal and most specific accounting standard that deals with loan relationships in the accounts of the borrower. For a summary of FRS 4 in respect of debt, see CFM22520.

The Companies Act, the Accounting Standards Board’s ‘Statement of Principles for Financial Reporting’, FRS 18 Accounting Policies, and FRS 5: ‘Reporting the Substance of Transactions’ are all relevant in considering the accounting by borrowers. Both the Statement of Principles and FRS 5 define a liability as an obligation to transfer economic benefits as a result of past transactions or events. Where this is likely to occur, a liability should be recognised on the balance sheet.

With more complex transactions, FRS 5 recognises that the commercial effect of such transactions may not be adequately expressed by their legal form. When a loan is taken out as part of a series of transactions, it may not be sufficient to account for it by merely recording its legal form. Instead, the company should present its primary financial statements to show the substance of the transactions rather than the legal form.

In addition, Statement of Standard Accountancy Practice 20 (SSAP 20) ‘Foreign currency translation’ deals with the foreign exchange aspect of loans.

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