HMRC - OT02003 - Attempts To Standardise Accounting Principles

Generally Accepted Accounting Principles in the UK (UK GAAP)

UK GAAP is a widely used term. The components of UK GAAP vary according to the type of entity. In general terms, the components are divided into mandatory elements (in law or practice), and non-mandatory elements.

The core mandatory elements include:

Financial reporting standards, or FRS’s;

Statements of standard accounting practice, or SSAP’s;

The Companies Act 2006;

Abstracts issued by the Accounting Standards Board’s (ASB) Urgent Issues Task Force (UITF’s); and

For listed company’s, the Stock Exchange’s Listing Rules.

Other, non mandatory, elements of UK GAAP include:

Sector specific guidance as set out in the Statement of Recommended Practice on “Accounting for Oil and Gas Exploration, Development, Production, and Decommissioning Activities”. This is hereon referred to as SORP in this manual;

The ASB’s Statement of Principles for financial reporting;

Other statements by the ASB for example on the operating and financial review and interim reports;

Statements and recommendations from the professional bodies such as the The Institute of Chartered Accountants in England and Wales (ICAEW); and

Established practice. Sometimes generally accepted practice can be regarded as part of UK GAAP. Much of this practice is set out in guidance from leading accounting firms.

International Financial Reporting Standards (IFRS - also referred to as IAS).

EC Regulation requires consolidated group accounts of listed plc’s to be prepared under IFRS from 1 January 2005. In the UK, companies can choose to prepare individual accounts under either IFRS or UK GAAP. The UK Parent has responsibility to ensure its subsidiaries prepare accounts using a consistent accounting framework unless there is good reason not to.

The adoption of IFRS is generally a one-way choice. Once a company has prepared its financial statements under IFRS it cannot revert to UK GAAP in a later financial year unless there is a “relevant change in circumstance”, for example, if the company is sold to a group where IFRS is not used or if the company (or its parent) de-lists.

IFRS is comprised of

International Accounting Standards (IAS);

International Financial Reporting Standards (IFRS);

Standing Interpretations Committee (SIC) Interpretations; and

International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued and adopted by the International Accounting Standards Board (IASB).

In 2004, the IASB issued IFRS 6 (Exploration for and Evaluation of Mineral Resources) - see OT02030 for details.

Convergence of UK GAAP and IFRS

The UK Accounting Standards Board (ASB) is undergoing a convergence project to bring UK GAAP into line with IFRS. Some standards have already been introduced, for example -

FRS25 Financial instruments: Disclosure and Presentation,

FRS26 Financial instruments: measurement,

FRS23 The effects of foreign exchange rates,

FRS20 Share based Payments and

FRS21 Post Balance Sheet Events.

The introduction of FRS26 or the international equivalent IAS39 has significantly impacted the accounting for financial instruments. FRS26 on financial instruments is applicable to listed entities and/or entities that prepare their financial reports in accordance with the fair value rules set out in the Companies Act.

Where FRS26 or the international equivalent IAS39 is applied, the accounting for energy contracts may change, for example through the requirement to separately account for embedded derivatives. Further information can be found either in FRS26 or IAS39, or by contacting an appropriate HMRC accountant.

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