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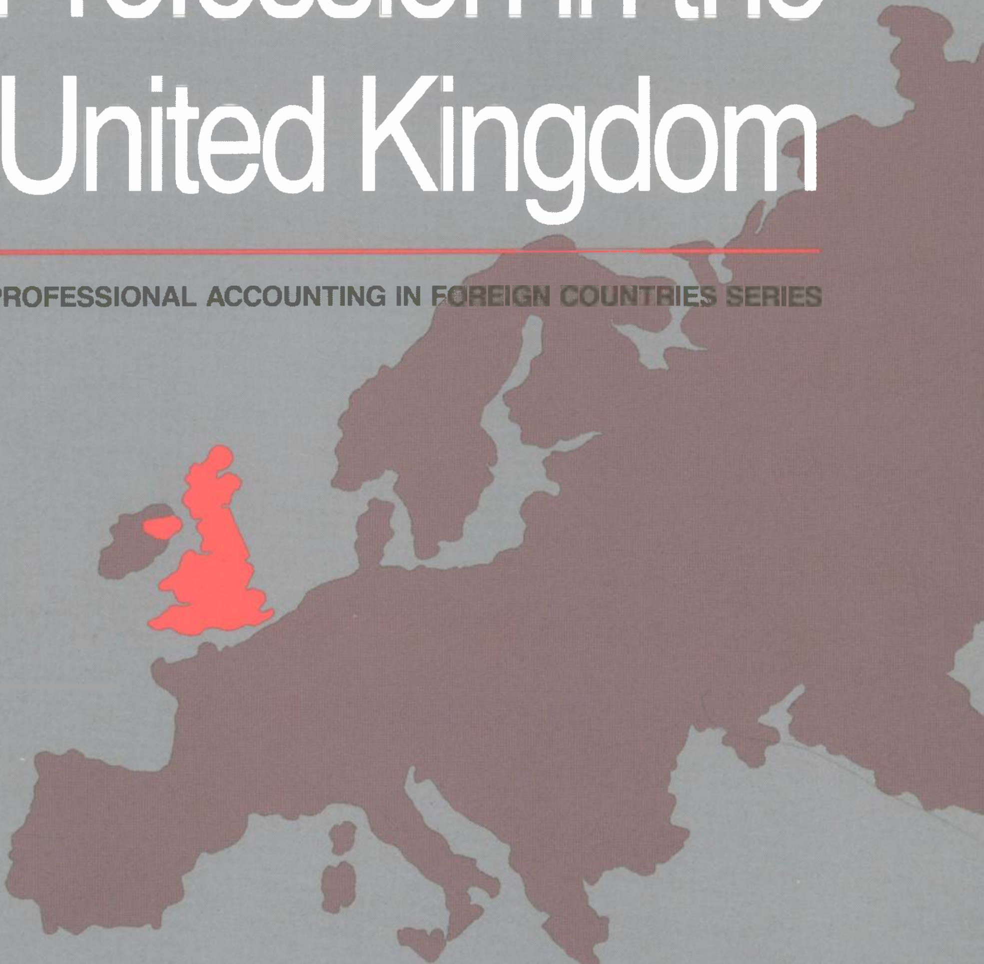
Accounting Profession in the United Kingdom; Professional Accounting in Foreign Country Series

Arthur Andersen & Co.

Susan Sgromo

The Accounting Profession in the United Kingdom

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA

American Institute of Certified Public Accountants

The Accounting Profession in the United Kingdom
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

CPA

The Accounting Profession in the United Kingdom

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Prepared by

Arthur Andersen & Co.

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Series Editor

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American Institute of Certified Public Accountants

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

The International Practice Committee gratefully acknowledges the contributions made to the development of this series by former committee chairman Harvey D. Moskowitz; former committee members Dale D. Baker, R. Harry Beattie, Campbell E. Corfe, Perry D. Harbour, Walter F. O'Connor, W.C. Brian Peoples, Bruce D. Robertson, Martin Rotheim, and Gary S. Schieneman; and former staff aide James F. Flynn. The committee would also like to acknowledge the fine editorial efforts of Glenn Shephard and Richard Jupa and the production work of Robert DiCorcia, Paul Smolenski, and Mary Hendrickson.

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1987. Changes after this date in the standards of either the United States or the United Kingdom may alter the comparisons detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in the United Kingdom. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing the United Kingdom auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in the United Kingdom but is designed instead to focus primarily on differences with those of the United States.

John Graves
Director
Technical Information Division

Contents

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The title "accountant" is not regulated. Anyone may use the title and offer accounting, audit (other than the legally required audit of a company), and tax services. The title "chartered accountant" may only be used by members of the Institutes of Chartered Accountants in England and Wales, of Scotland, or in Ireland. The major professional public accounting organizations in the United Kingdom control the admission and professional conduct of their members. These are the English, Irish, and Scottish Institutes of Chartered Accountants, the Chartered Institute of Public Finance and Accountancy (CIPFA), the Chartered Association of Certified Accountants (Chartered Association), and the Institute of Cost and Management Accountants. The English Institute, for example, requires a member to obtain at least a minimum period of two years of approved post-qualification experience before being licensed to practice in public.

2. Every company formed under the provisions of the Companies Act 1985 (the Act) or its predecessors must appoint or reappoint annually an auditor who is a member of an accountancy body recognized by the Department of Trade and Industry or who is individually recognized by the department as having either

equivalent qualifications obtained abroad or the experience specified in the Act. The accountancy bodies so recognized are the three Institutes of Chartered Accountants and the Chartered Association of Certified Accountants.

3. United Kingdom chartered accountants often engage in activities that are not customary for a CPA in the United States. For example, the chartered accountant may act as a liquidator, a receiver, or a trustee of a company in bankruptcy. The chartered accountant may do the work of the secretary of a company, act as a registrar and transfer agent of its shares and debentures, or as an appraiser of shares (especially of private companies) for capital transfer tax, for sale, and for other purposes. However, in certain circumstances both the Act and professional ethical rules restrict the nonaudit services that a chartered accountant may perform for an audit client.

Foreign Reciprocity

4. Accountants with overseas qualifications may, in limited circumstances, be permitted to audit U.K. companies. The English, Scottish, and Irish Institutes will offer reciprocal membership to each other's members in certain cases.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

5. The Auditing Practices Committee (APC) is a subcommittee of the Consultative Committee of Accountancy Bodies (CCAB), which represents all the major professional public accounting organizations in the United Kingdom. Case law defines general standards of care that auditors are expected to follow, and the Companies Act 1985 specifies certain matters that the auditor must consider in forming an opinion on the financial statements. The law leaves the auditor to decide which procedures to adopt in conducting a particular audit.

6. From time to time, the APC develops auditing standards and the CCAB member bodies issue them. These standards codify the best current practice concerning particular aspects of auditing. The APC supplements auditing standards with auditing guidelines, which elaborate on the standards. The APC also issues guidance on matters of topical concern.

7. The Accounting Standards Committee (ASC) is also a subcommittee of the CCAB. The ASC prepares statements of standard accounting practice (SSAPs) and the CCAB member bodies promulgate them. The SSAPs define standard practice on particular aspects of accounting and are preceded by proposals known as exposure drafts (EDs). In 1986, the ASC began the production of a series of statements of recognized practice (SORPs) that clarify the best practice concerning particular accounting problems in individual sectors of industry.

8. Tax law in the United Kingdom may require different treatment for certain items than does the Act or professional pronouncements.

Ethics Requirements

9. The English, Scottish, and Irish Institutes have adopted similar ethical guidelines. The English Institute gives ethical guidance to its members covering a wide range of matters including the following: advertising, the proportion of total fees generated from one client, close personal relationships, beneficial interests in trusts, loans to or from the client, gifts, provision of non-audit services, preparation of accounting records, appointment as a director or a receiver prior to the audit, and those occasions when a member should not accept nomination to replace an existing auditor.

10. The Institute of Chartered Accountants in England and Wales (ICAEW) limits the style and size of newspaper advertisements of its members. Professional literature written or published by members of the English Institute may not be sent unsolicited to nonclients. Members of the ICAEW are also prohibited from obtaining or seeking professional work by direct mailings.

11. In the United Kingdom, a firm should not act as auditor of a public company if a partner in the firm (or a spouse) is (1) a trustee of a trust holding shares in that company *and* (2) the holding exceeds 10 percent of the issued share capital of the company or the total assets comprised in the trust. Legal restrictions also apply to the appointment of an auditor (see paragraph 22).

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

12. The three Institutes of Chartered Accountants have similar membership requirements and similar organizational structures. The Institute of Chartered Accountants in England and Wales is the largest professional body of accountants in the United Kingdom. Applicants for membership must pass Institute examinations covering a wide range of subjects and must complete a designated amount of time (three years for U.K. graduates) under a training contract with an authorized training office.

13. The Chartered Association is an organization of accountants employed by industrial and commercial companies. Applicants for membership must have certain basic educational qualifications and must pass particular examinations and obtain specified experience. The Institute of Cost and Management Accountants is an organization of members in industrial accounting with qualifications similar to those of members of the Chartered Association. The members of the CIPFA hold accounting and administrative positions in local government or in nationalized industries and must meet certain educational requirements and pass certain examinations.

Rights of Membership

14. The Companies Act 1985 recognizes only members of the three Institutes of Chartered Accountants and of the Chartered Association as being eligible to undertake company audits. Membership in CIPFA is virtually a requirement for employment in

important local government positions in finance and accounting areas.

Number of Members

15. The approximate number of members in each of the major public accounting organizations at the beginning of 1986 is as follows.

Body	Number of Members
The Institute of Chartered Accountants in England and Wales (ICAEW)	82,100
The Institute of Chartered Accountants of Scotland (ICAS)	11,600
The Institute of Chartered Accountants in Ireland (ICAI)	5,500
The Chartered Association of Certified Accountants (Chartered Association, or ACA)	28,400
The Institute of Cost and Management Accountants	24,900
The Chartered Institute of Public Finance and Accountancy (CIPFA)	9,300

CPE Requirements

16. The three Institutes of Chartered Accountants require continuing professional education (CPE). Generally, a member of the ICAEW in public practice, who qualified after June 30, 1978, must obtain annually minimum credit for CPE within a broad range of professional activities (such as audit, tax, company law, and so forth).

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Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

17. The Companies Act 1985 requires all companies (except dormant and unlimited companies as defined in the Act) to issue audited financial statements. The purpose of an audit made under the Act is to enable the auditor to form an opinion on whether the financial statements comply with the Act and give a true and fair view of the company's state of affairs and the profit or loss for the year. Auditors are required to include certain additional information in their reports if not disclosed in the financial statements—information regarding such matters as directors' remuneration, loans, and so forth.

18. For many small stockholder-managed companies, the primary purpose of an audit is to comply with the Act. For other small companies, an additional purpose is to attest to information used by shareholders and creditors. As a result of the active capital market in the United Kingdom, the primary purpose of an audit for a larger company is to attest to information used in making investment decisions and in meeting requirements of The Stock Exchange. (In the United Kingdom, there is only one stock exchange, referred to as "The Stock Exchange.")

Entities That Are Required to Be Audited

19. Every active limited liability company registered in the United Kingdom is required to have an annual audit of its

financial statements. The financial statements must include at least the statutory accounts, which are the directors' report, balance sheet, and profit and loss account (income statement), as well as notes thereto. A statement of source and application of funds as well as supplementary statements adjusted for current costs and inflation may also be included in the financial statements reported on by the auditor. Auditing standards require the audit report to identify the statements that have been audited.

Appointment and Qualifications of Auditors

20. The directors of a company may appoint the auditors at any time before the first annual general meeting of the stockholders; if this is not done, the stockholders may appoint the auditors. Thereafter, an auditor must be appointed annually. If the stockholders have not appointed auditors, the government's Department of Trade and Industry must be notified, and it will fill the vacancy.

21. A change in auditors may be suggested by any stockholder. The retiring auditor has the right to make representations in writing to the company, to have them sent to the stockholders, and to be present and speak at the general meeting on the resolution as well as on any other matters that concern him or her as an auditor. The rules of the professional institutes require the proposed replacement auditor to communicate with the retiring auditor, primarily to determine whether there is any professional reason why the proposed engagement should not be accepted.

22. When a firm of auditors is appointed, the appointment is considered to be of all the constituent partners, and each must satisfy the requirements of the Act regarding eligibility. As noted earlier and subject to certain exceptions, an individual is not qualified to perform an audit of a company under the Act unless the individual is a member of one of the Institutes of Chartered Accountants or of the Chartered Association.

Auditing and Reporting Responsibilities

23. The directors—not the auditors—are responsible for ensuring that a company keeps proper accounting records and that

its annual financial statements give a true and fair view of the company's state of affairs and profit or loss. The auditor's responsibility is to report to the stockholders about whether or not these obligations have been fulfilled. The auditor has the right of access to the books, records, and vouchers of the company as needed to carry out his or her statutory duties and may obtain information from the company's officers and subsidiaries.

24. A company's annual report to stockholders may include other financial information, such as five-year summaries, but that information is not covered by the audit report, and it is the sole responsibility of the directors. The directors' report, which appears in the company's annual report, contains various matters specified in the Act, including highlights of the company's financial results (see paragraph 49 for a list of items required by the Act to be included in the directors' report). The directors' report is not covered by the audit report, but the Act requires the auditor to comment if any information given in the directors' report is not consistent with the company's financial statements.

Filing of Reports

25. The statutory auditor's report is addressed to the stockholders. The report is attached to the financial statements (annual accounts), sent to each stockholder, and filed with the government's Registrar of Companies. Small and medium-size companies may file "modified accounts," which must contain a statutory minimum of information with the Registrar of Companies. Members of the general public may inspect the financial statements by applying to Companies House (Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF4 3UZ).

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

26. Auditing requirements in the United Kingdom are set forth in the Companies Act 1985 and auditing standards are set

forth in pronouncements issued by professional bodies. The Act primarily addresses the qualifications of auditors and the specific matters they must consider in forming their opinions. The professional pronouncements address the general standards, the standards of fieldwork, and the reporting standards.

27. *Auditing Standards and Guidelines* was issued in 1980 and lists the basic principles and practices to be followed by members of the Institutes when performing an audit; these are referred to as "approved auditing standards." In addition, the guidelines provide general guidance on audit procedures and techniques. Prior to 1981, the ICAEW issued certain pronouncements on auditing matters. Until superseded or withdrawn, those pronouncements have the same status as auditing guidelines. A series of "audit briefs" issued by the APC provides nonmandatory guidance on specific topics. (Appendix A contains the following: a list of auditing standards; auditing guidelines, which are subdivided into operational, detailed operational, industries, and audit reports guidelines; audit briefs, issued as of April 1986; as well as a list of statements released by the ICAEW prior to 1981 that have not been superseded or withdrawn.)

28. There are certain differences between U.K. and U.S. auditing standards and procedures. Although the wording of auditing standards in the United Kingdom differs substantially from the wording of generally accepted auditing standards in the United States, the substance is generally similar. The major difference is that U.K. auditing standards are much less codified, and U.K. procedures are more judgmental. (See appendix D for a summary comparison of U.S. GAAS and auditing standards in the United Kingdom.)

29. Differences in auditing procedures between the United Kingdom and the United States include the following:

- In the United Kingdom, the auditor is not required to confirm receivables. However, Statement 901, *Verification of Debtor Balances: Confirmation by Direct Communication,* states that the auditor should consider direct communication with debtors, and such communication is the predominant practice.
- In accordance with Auditing Guideline 404, *Representations by Management,* written representations from management are not strictly required (but are predominant in practice) in the United

Kingdom if oral representations can be corroborated by the auditor through sources independent of the enterprise (but these written representations are required if such evidence cannot be obtained).

- In the United Kingdom, legal representation letters are not required. Statement 906, *The Ascertainment and Confirmation of Contingent Liabilities Arising From Pending Legal Matters,* states "auditors may decide to obtain written confirmations from third parties." Auditors in the United Kingdom do generally obtain such written representations.
- Although the predominant practice in the United Kingdom, there is currently no auditing guideline advising the auditor to do the following:

  Determine the impact on the financial statements of an illegal act. However, the legal duties of auditors to discover and report on fraud are currently being reviewed. The "Explanatory Foreword" to the *Auditing Standards and Guidelines* states than an auditor should plan work in order to have a reasonable expectation of discovering material misstatements arising through irregularities or fraud. The concept of the "true and fair view" requires appropriate disclosures in the case of material fraud, if the disclosure is necessary to a proper understanding of the financial statements.

  Perform procedures to identify and disclose related party transactions. However, the Act requires disclosure of certain transactions with specified related parties (for example, subsidiaries, fellow subsidiaries, associated companies, directors, and persons closely connected with directors, as defined by the Act). The accountancy profession currently is developing guidelines on related party transactions.
- Engagement letters are required in the United Kingdom by Auditing Guideline 406, *Engagement Letters.*
- The principal auditor in the United Kingdom is fully responsible for an opinion on consolidated financial statements that include the statements of a subsidiary or other component audited by another auditor. There can be no division of responsibility by referring to an examination by other auditors.

30. Significant differences in the reporting area between auditing standards in the United Kingdom and the United States include the following:

- Auditing standards in the United Kingdom do not require an auditor's report to state whether the financial statements are presented in accordance with generally accepted accounting principles. However, the opinion that the statements give a true and fair view means that the accounting principles being applied conform with all relevant SSAPs (unless a departure is justified and disclosed in the financial statements) or, with respect to matters not covered by SSAPs, are appropriate under the circumstances. In addition, the Act requires realized profits (the only profits that may be credited to the profit and loss account) to be determined in accordance with accounting principles that are generally accepted at the time the accounts are prepared.
- Auditing standards in the United Kingdom contain an implicit—but not explicit—requirement that all information necessary for a true and fair view be disclosed in the financial statements or notes. The implicit requirement results from the Act's requirement that such information be disclosed.
- Auditing standards in the United Kingdom do not require an auditor's report to express an opinion on consistency. However, the Act requires the principle of consistency to be followed in the preparation of accounts, and departures from the principle must be disclosed, explained, and quantified.
- Auditing standards in the United Kingdom require a "subject to," rather than an "except for," qualification when the scope of the audit has been limited.

General Standards

31. Matters similar to those discussed in the general standards in the United States are covered by the auditing guidelines and ethical guidelines in the United Kingdom as follows:

- The second fundamental ethics principle addresses the auditor's competence and knowledge of the technical and professional standards and prohibits a member of the ICAEW from performing professional work for which he is not competent.
- Auditing Guideline 201, *Planning, Controlling and Recording,* mandates adequate training, experience, and proficiency.
- The first statement on ethical matters requires a member in public practice to be and to be seen to be independent.

32. The explanatory notes included in the ICAEW ethical guidance state that a practice unit should not participate in the preparation of the accounting records of a public company audit client except in exceptional circumstances. The notes permit a practice unit to participate in the preparation of the accounting records of a private company audit client; however, a practice unit should take particular care to ensure that the client accepts full responsibility for the records and that objectivity is not impaired in carrying out the audit.

33. Although the professional standards do not explicitly require the exercise of due professional care in the performance of an audit and the preparation of the report thereon, U.K. accountancy bodies have always emphasized the need for due care in the performance of work. Under contract law, the auditor is required to exercise due care.

Standards of Fieldwork

34. U.K. Auditing Standard 101, *The Auditor's Operational Standard,* sets forth the following standards of fieldwork that apply whenever an audit is performed.

- The auditor should adequately plan, control, and record work.
- The auditor should review the enterprise's system of recording and processing transactions and assess its adequacy as a basis for the preparation of financial statements.
- The auditor should obtain relevant and reliable audit evidence that is sufficient to draw reasonable conclusions therefrom.
- If the auditor *wishes* to place reliance on any internal controls, he or she should review and evaluate those controls and perform compliance tests on their operation.
- The auditor should carry out such a review of the financial statements as is sufficient, in conjunction with the conclusions drawn from the other audit evidence obtained, to give a reasonable basis for an opinion on the financial statements.

35. The operational auditing guidelines stress the importance of staff supervision and also define the objective of a study and evaluation of internal controls.

Standards of Reporting

36. Auditing Standard 102, *The Audit Report,* applies to all reports in which an auditor expresses an opinion on financial statements intended to give a true and fair view of financial position, profit and loss, and, where applicable, source and application of funds. Auditing Standard 102 is not intended to override the statutory exemptions granted to certain types of enterprises, but it is intended to apply to the audit reports relating to such enterprises in other respects.

37. Although there is no requirement in the United Kingdom that specific reference be made in the audit report to consistency of application of, and conformity with, generally accepted accounting principles, it is evident that these are important considerations. SSAP 2, *Disclosure of Accounting Policies,* lists consistency as a fundamental accounting concept and requires disclosure and explanation of adoption of concepts differing materially from those generally accepted.

38. The Act also requires disclosure of corresponding amounts for the prior year for items shown in the balance sheet, profit and loss account, and notes. Those amounts are to be adjusted if necessary to achieve comparability. Adjustments shall be disclosed in accordance with the Companies Act 1985. The auditor need not refer to such a change if it is disclosed in the accounts in accordance with SSAP 6, *Extraordinary Items and Prior Year Adjustments.*

Standard Form of Report

39. Auditing Guideline 501, *Audit Report Examples,* provides the standard wording for auditors' reports in the United Kingdom. (See appendix C for an example of an auditors' report.)

40. The standard audit report is modified when the opinion is qualified, when a disclaimer of opinion is issued, or when an adverse opinion is expressed. The audit report is also modified if the company has availed itself of an exemption as a banking, insurance, or shipping company. In such a case, the auditor's opinion may be restricted to the compliance of the financial statements with the applicable regulatory accounting that has been legislated. No opinion need be expressed on whether the financial statements give a true and fair view.

Qualifications in Audit Reports

41. Auditing Standard 103, *Qualifications in Audit Reports,* outlines the circumstances under which a qualified report is to be issued and explains the form of qualification required. An uncertainty that is considered material but does not render the financial statements meaningless as a whole requires a "subject to" opinion. If the uncertainty causes the financial statements to be meaningless, a disclaimer of opinion should be issued.

42. If the auditor in the United Kingdom disagrees with the client on the accounting for a particular item that does not render the financial statements totally misleading, an "except" opinion is given whereby the auditor expresses an adverse opinion on the particular matter. If the disagreement renders the statements totally misleading, an adverse opinion is given. Auditing Guideline 501 provides illustrations of the various types of auditor's reports.

43. If the audit report is qualified, the Act requires the auditor, in addition, to state, either in the auditor's report on the financial statements or in a separate report, whether the qualification is material in determining whether a dividend may be paid; a dividend may not lawfully be paid unless the auditor makes this statement.

Dating of Audit Reports

44. SSAP 17, *Accounting for Post Balance Sheet Events,* states that the date a company's accounts are approved by the board of directors should be disclosed in the financial statements. In the United Kingdom, the auditor's report is usually signed and dated on the same date as, or after, the accounts have been approved, which may be subsequent to the completion of fieldwork.

Other Auditors

45. In the United Kingdom, the auditors of a parent company are considered to be fully responsible for their opinion on the consolidated financial statements and, accordingly, need not refer to the fact that certain subsidiaries or associated companies have been audited by other auditors. Statement 907, *Group Accounts—Reliance on Other Auditors,* states the following: "Such a reference may be misleading as it may be taken to imply a limitation of the scope of the primary auditors' opinion." The statement recom-

mends, however, that the shareholders be informed that the financial statements of some of the group companies have been audited by other auditors and suggests that this can be done in the schedule of principal subsidiary and associated companies, in the directors' report, or in the notes to the financial statements.

46. The concept of "joint auditors" in the United Kingdom defines when two auditors jointly audit a company's financial statements and jointly sign the opinion.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

47. Accounting principles derive both from the Companies Act 1985 and from the series of statements of standard accounting practice. (See appendix B for a list of SSAPs.) The Act specifically refers to the following fundamental principles: (*a*) going concern; (*b*) consistent application of accounting policies; (*c*) prudence; (*d*) the accrual concept; (*e*) and the separate valuation of assets, liabilities, income, and expenditures (in other words, a prohibition against netting).

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

48. The directors of a company are required by the Companies Act 1985 to submit a directors' report and audited financial statements (accounts) to the shareholders for their approval at the annual general meeting. The directors are additionally required to file such statements, or modified statements in the case of small or medium-size companies, with the Registrar of Companies within seven months of the company's year-end for a public company and within ten months for a private company.

For a listed company, The Stock Exchange requires published annual accounts within six months of the company's year-end, as well as interim (semiannual) unaudited statements within four months of the end of the interim period.

49. The directors' report contains the directors' view of the company's affairs. The Act requires the following matters to be disclosed in the directors' report: (*a*) principal activities; (*b*) review of the development of the business during the year and the position of the company (and subsidiaries) at year-end; (*c*) particulars of important post balance-sheet events affecting the company or any subsidiary; (*d*) research and development activities; (*e*) recommended dividend; (*f*) proposed transfers to reserves; (*g*) names of directors and their (group) share interests and options; (*h*) the details of treasury shares acquired by the company; (*i*) details of significant changes in fixed assets and of significant differences between book amount and market value of land and buildings; (*j*) political and charitable donations; (*k*) company's policy concerning the recruitment, training, and promotion of disabled employees; and (*l*) arrangements to inform and consult employees on matters affecting their interests.

50. The Act permits several alternative formats for the balance sheet and profit and loss account which, once adopted, must be consistently used and may only be changed in special circumstances with appropriate disclosure of the change. (See appendix C for illustrative financial statements.) The Act additionally requires comparative information for items in the balance sheet, profit and loss account, and notes to the financial statements.

51. The Act does not require a statement of changes in financial position. However, SSAP 10, *Statements of Source and Application of Funds,* does require such a statement for enterprises with a turnover or a gross income exceeding £25,000 per annum whose accounts are intended to give a true and fair view. The statement is regarded as part of the audited financial statements.

Types of Statements Prepared

52. The annual financial statements presented to the shareholders must comply with the Companies Act 1985. However, certain small and medium-size companies may file "modified" (or

abbreviated) statements with the Registrar of Companies. The modified financial statements for a qualifying small company consist of an abridged balance sheet, abridged notes, a special declaration by the directors, and a special audit report—but no profit and loss account or directors' report. A qualifying medium-size company may present a profit and loss account beginning with gross profit (and thereby omitting turnover and cost of sales) as long as it indicates that the accounts are modified and presents all other information required of other companies.

53. Abridged financial statements (that is, for publicity or other purposes), may be published at any time during the year as long as the company discloses: (*a*) that the statements are abridged; (*b*) whether complete statements were filed; (*c*) whether the complete statements were audited; and (*d*) if so, whether the audit report was qualified.

54. A company with subsidiaries is required by the Act to file *group accounts*. Both the Act and SSAP 14, *Group Accounts,* suggest that consolidated accounts are the usual form of *group* accounts. However, other forms of group accounts are permitted. The European Economic Community (EEC) Seventh Directive, due to be enforced throughout the European Community in 1990, does not provide alternatives to consolidated accounts. The Act requires the parent company's balance sheet to be presented with the group accounts. A separate profit and loss account of the parent company is not required, provided the omission of the parent company's separate account is disclosed in the notes and the consolidated account indicates the amount of the consolidated profit or loss for the financial year attributable to the parent.

55. The Act permits omission from group accounts if the directors consider that—

- It is impracticable, or would be of no real value to the company's members in view of the insignificant amounts involved, or—
- It would involve expense or delay out of proportion to the value to members, or—
- The result would be misleading, or harmful to the business of the company or any of its subsidiaries, or—
- The business of the holding company and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking, and—

- Group accounts are not required if the directors are of that opinion about each of the company's subsidiaries.

The Act also exempts a U.K. intermediate holding company that is wholly owned by another U.K. company from the obligation to prepare group accounts.

56. SSAP 14 recommends omission of a subsidiary from consolidated accounts if—

- Its activities are so dissimilar that consolidation would be misleading, or—
- The parent does not control a majority of the votes or members of the board, or—
- The subsidiary operates under severe restrictions that limit control by the parent over the subsidiary's assets and operations, or—
- Control is intended to be temporary.

Control in the United Kingdom is defined as follows:

- More than 50 percent of equity capital (not *voting* capital), or—
- Any shareholding, together with control of the composition of the board of directors, or—
- Control in sub-subsidiary situations.

57. When a subsidiary is not included in a company's group accounts, disclosure must usually be made of (*a*) the reasons why the subsidiary was excluded, (*b*) the aggregate investment in the subsidiary stated by the equity method of accounting, and (*c*) any material qualifications in the audit report on the subsidiary's financial statements. If any of this information is not available, that fact must be disclosed. In certain defined cases, group accounts are not required.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

58. The Companies Act 1985 requires assets to be recorded according to specified historical cost principles or alternative accounting rules (which are based upon valuations). A company

may choose (*a*) to value all assets on the historical cost basis, or (*b*) to value some on the historical cost basis, and some on a valuation basis, or (*c*) to value all assets on a revaluation basis. U.K. companies commonly adopt the second alternative. (See appendix E for a summary comparison of U.S. GAAP and accounting principles generally accepted in the United Kingdom.)

59. The Act defines a fixed asset as one intended for use on a continuing basis in the company's activities. Any asset that is not a fixed asset is a current asset. The classification as current does not necessarily imply that the asset will be realized within the operating cycle of the business, but in the case of receivables, amounts falling due after one year must be disclosed.

60. The historical cost rules require all fixed assets with a limited useful economic life to be carried at purchase price or production cost, less provisions for any permanent decline in value, and to be systematically depreciated over their useful economic life. Any fixed asset *must* be written down if a permanent loss of its value has occurred, regardless of whether its useful economic life is limited or not. Correspondingly, provisions for losses in value must be reduced as the asset value recovers.

61. Current assets must be valued under the historical cost rules at production cost or purchase price, or their net realizable value if lower. Loss provisions (including provisions for inventory losses) no longer required must be reversed.

62. The alternative accounting rules permit inventories, investments, tangible fixed assets, and intangible fixed assets (other than goodwill) to be stated at values in excess of cost as follows:

- *Current cost*—Intangible fixed assets (other than goodwill), tangible fixed assets, inventories, and investments classified as current assets may be valued at current cost.
- *Market value*—Tangible fixed assets and investments classified as fixed assets may be stated at market value. The amount to be used is the value as of the date of the last valuation (which may differ from the value on the balance sheet date).
- *Equity method*—Investments in or by subsidiaries, or investments making up more than one-fifth of equity share capital allotted by the investee may be valued under the equity method. Under this method, the investment is shown in the balance sheet at

cost plus the attributable share of post-acquisition changes in capital and reserves, less any amounts written off. However, in the investor's own profit and loss account, only dividends received and receivable (not the investor's *share* of profit) are reported as income. Surpluses on revaluation are credited to a nondistributable revaluation reserve (and released as the surplus is realized in the form of dividends or sale proceeds).

- *Other*—Investments classified as fixed assets may be valued on any other basis that appears to the directors to be appropriate to the company's circumstances, provided that the method and the reasons for choosing it are disclosed.

63. The effect of the alternative accounting rules is to allow companies to continue the existing practice of incorporating intermittent, piecemeal revaluations (primarily of fixed assets such as property) in historical cost accounts. At the time of a revaluation, the general practice is to eliminate the existing accumulated depreciation against the recorded cost of the properties, and to substitute the revalued amount for the net book amount. Any deficit or surplus arising on a revaluation must be dealt with through the "revaluation reserve." Once fixed assets are revalued, the Act requires depreciation to be based on the revalued amount. Disclosure of the items valued by the alternative accounting rules, the valuation method used, and, except in the case of inventories, the cost and accumulated depreciation that would be reported for the items under the historical cost rules, is also required by the Act.

Inventory

64. In the United Kingdom, when inventory (referred to as "stocks") is stated on the statutory historical cost basis, it is valued at the lower of cost or net realizable value. Any provision to write down inventories to net realizable value which is no longer required must be written back. The last-in, first-out (LIFO) method of pricing inventories is generally not used because it is not permitted for tax purposes or by SSAP 9, *Stocks and Work in Progress.*

Investment Properties

65. SSAP 19, *Accounting for Investment Properties,* defines investment property as an interest in land or buildings held for

investment purposes where construction and development are substantially complete. Property owned and occupied by a company for its own use or let to another member of the same group is not treated as an investment property. It is assumed that any rental income is being negotiated at arm's length. The SSAP provides that investment properties should be carried at open-market value and not depreciated, except for leased properties. These should be depreciated over a term no less than the period of the lease when the unexpired term is twenty years or less. Changes in value should be disclosed as changes in the revaluation reserve; however, if a decrease in value of investment properties exceeds the total in the investment revaluation reserve, the excess should be charged in the profit and loss account.

Investments

66. The Companies Act 1985 requires investments to be treated as either fixed or current assets. Those treated as fixed assets generally include subsidiaries, brother-sister companies (fellow subsidiaries), associated companies (referred to as "related companies" in the Act), and other investments to be held long-term. An associated company is defined in SSAP 1, *Accounting for Associated Companies,* as a company (not being a subsidiary of the investing company) in which (*a*) the investor's interest is essentially that of a partner in a joint venture with the investor having the ability to exercise significant influence over the investee or (*b*) the investor's interest is long-term and substantial (not less than 20 percent of the equity voting rights) with the investor being in a position to exert significant influence over the investee. In both cases, the investor must be in a position to participate in the financial and operating policies of the associated company.

67. Investments classified as fixed assets are permitted by the Act to be valued according to either the historical cost rules or the alternative valuation rules. In the United Kingdom, investments in subsidiaries and associated companies are generally carried in the investor's company-only financial statements at cost less any allowance required for a permanent impairment in value.

Receivables

68. The valuation rules cited earlier for current assets normally apply to receivables (referred to as "debtors"). Disclosure of the

amounts of provisions for discounts, allowances, and doubtful accounts is usually considered to be unnecessary unless the amounts are of special significance. To the extent that a provision for bad debts is not for specific doubtful items, it will not be deductible for tax purposes.

69. There is no explicit requirement to impute interest on receivables, and it is not usual to do so in the United Kingdom. However, the provision in the Act that current assets are to be stated at purchase price, and that purchase price means any consideration (whether in cash or otherwise) given up may result in stating receivables at amounts that recognize the imputation of interest.

70. With certain exceptions, the Act prohibits a company from providing its directors with loans or other forms of credit. Credit may be extended to employees in certain cases. Detailed disclosure is generally required in the notes to the financial statements.

Acquisitions and Mergers

71. The Companies Act 1985 provides that if an "issuing company" (the acquirer) has, by an arrangement that includes the exchange of equity shares, secured at least a 90-percent equity holding in another company (the acquiree), the acquirer need not record the shares issued at their fair value or record any premium on those shares in a share premium account. This has the effect that the investment in the subsidiary may be carried in the accounts of the parent at the nominal value of the shares issued (plus the fair value of any other consideration) rather than at the fair value of the shares issued or the fair value of the assets acquired. This relief from recognizing share premium may be restricted in the case of certain group reconstructions.

72. The statute does not deal with merger accounting specifically. The Accounting Standards Committee has issued SSAP 23, *Accounting for Acquisitions and Mergers,* which applies only to consolidated accounts and which is more restrictive than the legal criteria in certain respects. SSAP 23 states that pooling-of-interests (merger) accounting may be adopted only under the following circumstances: (*a*) the combination results from an offer to the holders of all equity shares and the holders of all voting shares; (*b*) the offer results in at least a 90-percent holding in the offeree's voting and equity shares; (*c*) at least 90 percent of the fair value

of the total consideration given for the equity capital is in the form of the offeror's equity; and (*d*) prior to the offer, the offeror did not hold 20 percent or more of the offeree's equity and voting shares. If these criteria are not met, pooling-of-interests accounting should not be adopted. If these criteria are met, pooling-of-interests accounting is permitted but not required. Both the Act and SSAP 23 require disclosures concerning pre- and postmerger profits, and so forth.

Goodwill

73. The alternative accounting treatment permitted for intangible fixed assets in the United Kingdom does not apply to goodwill. SSAP 22, *Accounting for Goodwill,* provides that purchased goodwill should be valued at the difference between the fair value of the consideration given and the aggregate of the fair values of the separable net assets (including separable intangibles) acquired. Purchased goodwill should not be carried in the balance sheet as a permanent item but should normally be eliminated immediately on acquisition against reserves ("immediate write-off"). Any excess of the aggregate of the fair values of the separable net assets acquired over the fair value of the consideration given (negative goodwill) should be credited directly to reserves.

74. Alternatively, SSAP 22 states that purchased goodwill (other than negative goodwill) may be capitalized and amortized through the profit and loss account over its useful economic life. If goodwill is capitalized, purchased goodwill should not be revalued; the useful economic life should be estimated at the time of acquisition, and the estimate may subsequently be shortened but not increased.

75. A company may use both the immediate write-off and the capitalization methods for goodwill arising in different acquisitions.

Research and Development Costs

76. The Act prohibits capitalization of research costs but permits capitalization of development costs in "special cases" (which the Act does not define), provided that a note explains the write-off period and the reasons for capitalization. The Act further provides that, in calculating the amount of distributable

profit, capitalized development costs will be treated as a charge against distributable profits, unless the directors consider that special circumstances exist making this inappropriate, and disclose and justify the accounting treatment adopted. Compliance with SSAP 13, *Accounting for Research and Development,* would normally be an adequate justification.

77. SSAP 13 requires the cost of fixed assets acquired or constructed to provide facilities for research and development activities over a number of accounting periods to be capitalized and written off over their useful lives. A research expenditure should be written off in the year of expenditure. A development expenditure should be written off in the year of expenditure except in the following circumstances, when they may be deferred if recovery of costs is reasonably assured:

a. A clearly defined project exists, and—
b. The related expenditure is clearly identifiable, and—
c. The technical feasibility and commercial viability are reasonably certain, and—
d. Further development costs on the same project (and related costs) are reasonably expected to be more than covered by related future revenue, and—
e. Adequate working capital exists to enable completion of project.

If development costs are deferred to future periods, they should be disclosed separately and amortized systematically commencing with the commercial production of the project or process.

78. SSAP 13 states that a deferred development expenditure should be reviewed at the end of each accounting period. If the circumstances that have justified the deferral of the expenditure no longer apply or are considered doubtful, the expenditure should be written off immediately to the extent it is not considered to be recoverable.

Leases

79. The Companies Act 1985 does not specifically refer to leases other than in the context of disclosure concerning leasehold property. SSAP 21, *Accounting for Leases and Hire Purchase Contracts,* divides leases into two categories—finance leases and operating leases—and specifies the accounting and disclosure requirements

for each category. The requirements affecting lessors and the disclosure provisions for lessees came into effect for financial statements for years beginning on or after July 1, 1984. Capitalization of finance leases by lessees will be required in financial statements for years beginning on or after July 1, 1987.

80. SSAP 21 defines finance leases as those that transfer substantially all the risks and rewards of ownership to the lessee. All other leases are operating leases. Because most leases in the United Kingdom covering land and buildings have regular rent reviews that provide for the adjustment of rentals to market values, they are not in substance financing transactions and are treated as operating leases.

81. Assets acquired under a finance lease should be shown in the lessee's accounts as a separate subdivision of fixed assets and depreciated over the shorter of the lease term—which includes all periods for which the lessee has the option to renew the lease, when it is reasonably certain at the inception of the lease that the lessee will renew—or their useful life. The obligation to pay future rentals to the lessor should be shown as a liability. At the start of the lease, the amount of the asset and the liability will normally be the fair value of the asset or the present value of the minimum lease payments discounted at the interest rate implicit in the lease. Rental payments should be apportioned between interest and principal repayments of the liability. The interest on the liability should be calculated in order to produce an approximately constant rate of interest on the balance owed to the lessor.

82. The sum of all operating lease payments is charged on a straight-line basis, even if the payments are not made on that basis, unless another systematic and rational basis is more appropriate.

83. Finance leases should be treated in the lessor's accounts as a receivable from the lessee at the amount of the net investment in the lease, less provisions for bad debts. The net investment is the gross investment in the lease (the total of the minimum lease payments and any unguaranteed residual value accruing to the lessor), less gross earnings allocated to future periods. The interest on the receivable should be calculated in order to produce an approximately constant rate on the net cash investment and

should be disclosed separately in the profit and loss account. Pretax gross earnings are allocated to produce a constant rate of return on the net after-tax cash investment in the lease (which, among other factors, considers the tax effects of depreciation reported for tax purposes).

84. A lessor should show operating lease assets as fixed assets and should depreciate them over their useful lives. Rental income from operating leases normally should be recognized on a straight-line basis over the life of the lease and be shown separately in the profit and loss account or notes.

85. Lessees in the United Kingdom should disclose the following:

- Gross amounts of assets held under finance leases (and accumulated depreciation) by each major class of asset
- Obligations related to finance leases (net of finance charges allocated to future periods) separately identified
- Finance lease obligations analyzed between amounts payable: in next year; in years two through five; aggregate amounts payable thereafter. Slight variations are permitted.
- Aggregate finance charges allocated for period in respect of finance leases
- Total operating lease rentals charged in period, distinguishing amounts in respect of hire of plant and machinery from amounts in respect of other operating leases
- Commitments under operating leases analyzed between amounts due: within next year; years two through five; thereafter (showing commitments in respect of leases of land and buildings separate from other operating leases)
- Accounting policies adopted for finance and operating leases

86. Lessors in the United Kingdom should disclose the following:

- The net investment in finance leases and hire purchase contracts at each balance sheet date
- The gross amount of assets held for operating leases and the related accumulated depreciation
- The accounting policies adopted to account for operating leases and finance leases including, in detail, disclosure of the accounting policy for finance lease income

- The aggregate rentals receivable in the accounting period for both operating and finance leases
- The cost of assets acquired for the purpose of leasing under finance leases

Taxation

87. The "imputation" system of corporation tax started in the United Kingdom in 1973 and in the Republic of Ireland in 1976. Corporation tax is charged at a single rate on a company's income whether distributed or undistributed, and in the absence of a dividend, the entire tax is payable on a date that may be nine months or more after the end of the relevant accounting period. When a company makes a distribution to shareholders in an accounting period, it is required to make an advance payment of corporation tax (ACT). This ACT will normally be offset against the company's total liability for corporation tax on its income of the same accounting period. The resultant net liability is known as the mainstream corporation tax. The charge for corporation tax therefore comprises the mainstream corporation tax and the ACT.

88. SSAP 8, *The Treatment of Taxation Under the Imputation System in the Accounts of Companies,* requires the following items to be included in the taxation charge in the profit and loss account and, if material, to be separately disclosed:

- The amount of the U.K. corporation tax specifying (*a*) the charge for corporation tax on the income of the year (if transfers between the deferred tax account and the profit and loss account are included in the charge, they should be separately disclosed); (*b*) the tax attributable to franked investment income (excess of dividends received from U.K. companies over dividends paid); (*c*) irrecoverable ACT; and (*d*) the relief for overseas taxation.
- The total overseas taxation, relieved and unrelieved, specifying that part of the unrelieved taxation arising from the payment or proposed payment of dividends.

If the rate of corporation tax is not known for the whole or part of the period covered by the financial statements, the latest known rate should be used and disclosed.

89. SSAP 8 defines recoverable ACT as that amount of the ACT paid or payable on outgoing dividends paid and proposed that can either be offset against a corporation tax liability on the profits of current or prior periods, or against a credit balance in the deferred tax account, or is expected to be recoverable (taking into account expected profits and dividends—normally for the next period only). Irrecoverable ACT is the ACT paid or payable on outgoing dividends, paid or proposed, not meeting the definition of recoverable ACT.

90. The Companies Act 1985 requires disclosure of the following: the basis of computing U.K. income and corporation tax; special circumstances affecting liability to tax; the amount of U.K. corporation tax, related double tax relief, U.K. income tax and foreign tax; separate details of the foregoing that relate to extraordinary items; provisions for tax other than deferred tax; the amount of unprovided contingent liabilities, its legal nature and security provided (unprovided deferred tax is generally regarded as a contingent liability); and the tax treatment of items credited or debited to the revaluation reserve.

91. SSAP 15, *Accounting for Deferred Taxation*, adopts the partial method of interperiod tax allocation and states that deferred tax should be calculated under the liability method to the extent that it is probable a tax asset or liability will materialize. The assessment of whether a tax asset or liability will materialize should be based upon reasonable assumptions that take into account relevant information up to the date on which the financial statements are approved by the board of directors, as well as the intentions of management. A prudent view should be taken. SSAP 15 also states that deferred tax liabilities should be reduced by any debit balances arising from timing differences or ACT that are available for offset against those liabilities. However, deferred tax debit balances may not be carried forward as assets unless they are expected to be recoverable without replacement by equivalent debit balances.

92. Debit balances arising in respect of advance corporation tax on dividends payable or proposed at the balance sheet date should be carried forward to the extent that it is foreseen that sufficient corporation tax will be assessed on the profits or income

of the succeeding accounting period, against which the advance corporation tax is available for offset.

93. Debit balances arising in respect of advance corporation tax other than on dividends payable or proposed at the balance-sheet date should be written off unless their recovery is assured beyond reasonable doubt. Such recovery will normally be assured only if the debit balances are recoverable out of corporation tax arising on profits or income of the succeeding accounting period, without replacement by equivalent debit balances.

94. Deferred tax on the ordinary activities of a company is shown as a separate component of the tax on the profit from ordinary activities. Deferred tax relating to extraordinary items is shown as part of the tax on extraordinary items. The amount of any unprovided deferred tax is disclosed in a note. Deferred tax is only provided on revaluation surpluses relating to assets for which disposal is expected.

Dividends

95. A dividend for a year that has been proposed but not yet approved is reported as a current liability as of the end of that year, even if the dividend was proposed subsequent to year-end. Stock dividends (bonus issues) are reported by transferring to share capital an amount equal to the par value of the shares distributed. The amount can be transferred from the share premium account, the revaluation reserve, the capital redemption reserve, or retained profits.

Pension Costs

96. Although the Act requires disclosure of pension costs in financial statements, it does not specify the accounting for pensions. Presently, most U.K. companies charge to their profit and loss account the contributions payable to the pension plan. The Accounting Standards Committee has formulated draft proposals (EDs) that will change the current accounting practices regarding accounting for pensions to more closely approximate the standards in effect in the United States prior to 1986.

97. ED 39 applies to all pension schemes (plans), whether contractual or arising out of customary practice, whether funded

or unfunded, and whether defined contribution or defined benefit. ED 39 proposes requiring the following disclosures.

Defined contribution scheme

a. The nature of the scheme (that is, defined contribution)
b. The pension cost charge for the period
c. Any outstanding or prepaid contributions at the balance sheet date

Defined benefit scheme

a. The nature of the scheme (that is, defined benefit)
b. The question of whether it is funded or unfunded
c. The accounting policy and, if different, the funding policy
d. The question of whether the pension cost and liability (or asset) are assessed in accordance with the advice of a professionally qualified actuary and, if so, the date of the most recent formal actuarial valuation or later review used for this purpose and the actuarial valuation method used
e. The pension cost charge for the period, distinguishing between the regular cost and variations from the regular cost. Explanations should be given of the variations and of material changes in the regular cost. The number of years over which the variations are to be spread should also be disclosed.
f. Any provisions or prepayments in the balance sheet, resulting from a difference between the amounts recognized as cost and the amounts funded
g. Expected significant effects on financial statements of any changes that have already occurred in the above (including the effects of any commitment to make additional payments over a limited number of years)
h. The amount of any deficiency on a discontinuance actuarial valuation, indicating the action, if any, being taken to deal with it in the current and future financial statements and—
i. An outline of the results of the most recent formal actuarial valuation or later review of the funding of the scheme on an ongoing basis. This should include disclosure in percentage terms of the relationship between the scheme assets, as valued for actuarial purposes and the actuarial value of accrued benefits, or the actuarial value of prospective benefits less the

value of future contributions, as appropriate, in each case taking into account future salary increases and an explanation of future intentions regarding any material deficiency or surplus so identified. Other disclosures would include the contribution rate needed to maintain or achieve the target level of funding, and whether experience since the last valuation has resulted in any material changes in the contribution rate.

All schemes

If a company (or group) has more than one pension scheme, disclosures should be given on a combined basis, unless disclosure of information about individual schemes is necessary for a proper understanding of the accounts. For the purposes of (*h*) above, however, a discontinuance deficiency in one scheme should not be set off against a surplus in another.

Accounting Changes

98. Changes in accounting principles are generally accounted for on a retroactive basis in the United Kingdom. The Companies Act 1985 requires disclosure of the effect of including certain items relating to prior years in the profit and loss account. SSAP 6 defines prior-year adjustments as those material adjustments applicable to prior years that arise from changes in accounting policies and from the correction of fundamental errors. The definition does not include the normal recurring corrections and adjustments of accounting estimates made in prior years. SSAP 6 provides that prior-year adjustments (less attributable taxation) should be accounted for by restating prior years, with the opening balance of retained profits adjusted. The effect of the change should be disclosed, when practicable, by showing the amount involved separately in the restatement of the previous year. Extraordinary item as defined in SSAP 6 is not as restrictively interpreted as is the definition in the United States. Whereas in the United States very few transactions can be treated as extraordinary, a considerable number of items are so treated in the United Kingdom, including gains and losses arising on the discontinuance of a business segment.

99. SSAP 12, *Accounting for Depreciation,* specifies a different treatment when a company changes from one method of depreciation to another. It states that unamortized costs of the asset

should be depreciated over the remaining useful life on the new basis, commencing with the period in which the change is made.

100. SSAP 6 requires items representing normal recurring corrections and adjustments of accounting estimates in prior years to be included in the profit and loss account. If material, their nature and size should be disclosed.

Related Party Transactions

101. "Related parties" is not a defined term in the United Kingdom. The Act distinguishes holding, subsidiary, fellow subsidiary, and related companies. As noted earlier, SSAP 1 defines associated companies (similar but not identical to related companies). The Act requires subsidiaries to be identified. The Act also requires year-end balances with all these companies to be disclosed but not details of transactions during the year, unless they concern security given or other financial commitments. The Act requires disclosure of ultimate holding companies, but no details of transactions with them. The Act identifies directors and persons connected with them, and nondirector officers, and prescribes various disclosures of either year-end balances, or transactions during the year, or both. SSAP 1 requires disclosure of associates and details of an associate's assets and liabilities if material to giving a true and fair view, among other items. The Stock Exchange defines, and requires disclosure of certain transactions with, substantial corporate shareholders. The Stock Exchange also requires greater than 5 percent shareholders to be identified but not transactions with them.

Inflation Accounting

102. There is no statutory requirement to indicate the impact of inflation on a company's financial performance. The Accounting Standards Committee has produced a number of proposals over the last twelve years, embracing both the current purchasing power (CPP) method and current cost accounting (CCA). In 1980, the ASC issued SSAP 16, *Current Cost Accounting,* which was based on the CCA method. SSAP 16 applied to certain categories of company only (mainly listed and large unlisted) and has proved unpopular in practice. Compliance with it is now optional rather than mandatory.

Foreign Currency Translation

103. SSAP 20, *Foreign Currency Translation,* requires individual companies to record transactions at (*a*) actual (or average) rates of exchange, (*b*) the contracted rates of exchange at which the transactions are to be settled, or (*c*) for trading transactions, the rates of exchange specified in matching forward contracts. The carrying amount of nonmonetary assets acquired in foreign currency transactions should not normally be adjusted to reflect the current exchange rate at the balance-sheet date. Monetary items denominated in a foreign currency should be adjusted to reflect the current exchange rate at the balance-sheet date or, if appropriate, should be translated at the rate specified in the relevant contract or in a matching forward contract.

104. Unless the cover method is used (as described below), companies should include in the profit and loss account any exchange gains or losses on settled transactions and unsettled short-term monetary items, and should normally include in the profit and loss account all gains and losses on long-term monetary items. Exchange gains or losses on balances resulting from intra-group transactions should be treated in the same way as those on third-party transactions.

105. Subject to certain restrictions, companies should offset in shareholders' equity translation losses or gains on foreign currency borrowings used to finance foreign equity investments or to hedge against translation gains or losses on the investments (the "cover method").

106. In translating foreign currency financial statements, in most circumstances the "closing rate/net investment method" should be used, in which—

a. Amounts in the subsidiaries' balance sheets are translated at the current exchange rate on the balance-sheet date.

b. Any difference between the parent's net investment in its subsidiary, translated at the current exchange rates at the beginning and end of the year, is transferred to (or from) shareholder's equity.

c. Subsidiaries' profits or losses are translated at an average rate for the period or the current exchange rate on the balance-sheet date. If an average rate is used, any difference between the average and the closing rate is transferred to shareholders' equity.

d. Subject to certain limitations, exchange gains or losses on foreign currency borrowings used to finance or hedge an investment in foreign enterprises may be offset in shareholders' equity against the exchange differences on the net investment.

107. However, if a subsidiary's business is so closely interlinked with its parent's that its results are more dependent on the economic environment of its parent's currency than of its own, the temporal method should be used to translate its financial statements. Under the temporal method, the financial statements of the subsidiary are included in the consolidated financial statements as if the underlying transactions had been entered into by the parent in its own currency.

108. The Companies Act 1985 and SSAP 20 require the methods used in the translation of the accounts of foreign enterprises and the treatment accorded to exchange differences to be disclosed in the accounts. Disclosure of foreign currency restrictions is also required. SSAP 1 requires disclosure of significant restrictions on ability of an associated company to distribute its retained earnings. SSAP 14 requires similar disclosure if a holding company is restricted in distributing the retained profits of the group. SSAP 20 notes that gains on long-term monetary items may need to be restricted on grounds of prudence.

Capitalization of Interest

109. The Act permits the production cost of both fixed and current assets to include interest on capital borrowed to finance the production of the asset concerned (to the extent that the interest accrues in respect of the production period and provided certain disclosures are made). The Act does not specify criteria regarding the nature of the asset and thus permits capitalization in respect of assets that would not so qualify in the United States.

Accounting for Contracts

110. Profit recognition as work progresses is restricted under SSAP 9 to long-term contracts whereas practice in the United States permits the percentage of completion method to be used on all construction-type work in progress regardless of duration of the contract.

Earnings Per Share

111. Basic earnings per share under SSAP 3, *Earnings Per Share,* does not include securities that are in substance equivalent to common stock as is required to be included in primary earnings per share in the United States.

Other Matters

112. Neither the Companies Act 1985 nor the SSAPs issued to date deal with a number of matters covered by U.S. generally accepted accounting principles. The more significant areas not addressed in the United Kingdom include the following:

- Convertible debt
- Employee stock purchase schemes
- Extinguishment of debt
- Franchise fee income
- Futures contracts
- Nonmonetary transactions
- Premium or discount on debt securities
- Restructuring of debt
- Revenue recognition on real estate sales
- Stock financing arrangements

113. Standards in the United Kingdom for which there are no corresponding U.S. standards deal with the following matters:

- Accounting for sales tax (VAT)
- Treatment of taxation under the imputation system
- Accounting treatment for government grants

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

114. The forms of business organization existing in the United States are also found in the United Kingdom. While there are differences, the sole proprietorship, the partnership, and the limited liability company (or corporation) are generally similar.

115. With the exception of certain special types of companies—such as companies incorporated by Royal Charter—the formation and dissolution of all companies incorporated in the United Kingdom are controlled by the provisions of the Companies Act 1985 and the Insolvency Act 1985.

116. Companies may be registered in the following ways:

- A company limited by shares, in which the liability of a member (shareholder) to contribute to the company's assets is limited to the amount, if any, unpaid on owned shares
- A company limited by guarantee, in which the liability of a member is limited to the amount the member has undertaken to contribute in the event the company goes out of business and is wound up
- An unlimited company, in which the liability of a member is unlimited

117. The Act distinguishes between private and public companies limited by shares. The principal restriction on a private

company is a prohibition against offering shares for public subscription. A public company is not necessarily listed on The Stock Exchange (many public companies are not listed), but any company with listed ordinary shares, listed preference (nonequity) shares, or listed debentures (loan stock) will always be a public company. A public company must have the words "public limited company" or the abbreviation "plc" added to the end of its name.

118. A company can only be public if it meets certain requirements. Share capital (par value) must be £50,000 (cash must be paid for at least 25 percent of par value, as well as the full amount of any share premium). Public companies are also subject to stricter requirements than private companies in the following areas: (*a*) payment and maintenance of capital, (*b*) share registers, (*c*) distributions, (*d*) loans to directors, (*e*) appointment of company secretaries, (*f*) publication of accounts, (*g*) purchase and redemption of treasury shares, and (*h*) granting of financial assistance to third parties for the acquisition of their shares.

119. A limited company must hold a general meeting of stockholders at least once each calendar year. The approval of the shareholders must be sought before the company can proceed with certain matters, including an increase in the authorized share capital, a change in the company's name, or alterations to the memorandum or articles of association.

120. Although a member of a limited company is only liable to contribute any amount unpaid on his or her shares, a director is liable for prescribed penalties if the company is in default of its obligations under the Act. These obligations include the following: the preparation of financial statements giving a true and fair view of the company's (or group's) affairs; the presentation of audited financial statements and a directors' report to the shareholders at the general meeting; and the subsequent filing of the financial statements and directors' report with the Registrar of Companies. Directors may incur unlimited liability if the company, to their knowledge, has traded fraudulently or with intent to defraud creditors. Shareholders may, by vote, also confer unlimited liability on directors.

121. A company is required by U.K. law to establish the following: a share premium account (if shares are issued at a

premium); a capital redemption reserve (if shares are purchased or redeemed out of profits); a reserve for its own (treasury) shares (if a public company acquires its own shares other than by purchase or redemption); and a revaluation reserve (if assets are revalued). These reserves are not available for distribution as dividends other than stock dividends. In addition, a company's memorandum and articles (charter and bylaws) may specify that profits arising in certain circumstances are not available for distribution.

Branch of a Foreign Company

122. A foreign company wishing to establish a branch in the United Kingdom must first register with the Registrar of Companies as an overseas company by filing the following information:

- The name and address of the person(s) residing in the United Kingdom upon whom legal process against the company may be served
- Particulars of the directors and secretary of the company
- A certified copy of the company's charter and bylaws (in the English language)
- Notice of the company's balance sheet date
- A declaration by a director concerning the establishment of a branch in the United Kingdom

123. Overseas companies must submit copies of their annual accounts to the Registrar of Companies, including group accounts where applicable, within thirteen months of their financial year-end; U.K. branch accounts only are not acceptable. The general requirement is that the accounts submitted must comply with the provisions of the Companies Act 1985 applicable to U.K. companies. The Act has, however, granted certain exemptions to overseas companies, which are therefore not required to publish the following: the auditor's report; the directors' report; the turnover; details of U.K. taxation charges; details of parent, subsidiary, and associated companies; compensation paid to directors and senior employees; and loans and other transactions with directors and officers.

124. An overseas company is required to display in each place of business in the United Kingdom its name, the name of the

country under whose laws it was organized, and the fact that it is incorporated with limited liability, if that is the case. The same information must also be clearly stated on all invoices and letterheads and in all notices, advertisements, and other publications of the company.

Partnership Entities

125. There are two types of partnerships—the ordinary partnership governed by the Partnership Act 1890 and the limited partnership governed by the Limited Partnership Act 1907. The latter type is rarely used. A partnership is not a separate legal entity under U.K. law. Nevertheless, it may sue and be sued in its own name. The partners themselves are the joint owners of the partnership property and are personally liable—both jointly and severally—for the liabilities of the firm. In the case of an ordinary partnership, the liability of each partner is unlimited. The Partnership Act 1890 only requires disclosure of partnership information to the partners themselves. There are no specific accounting, auditing, and disclosure rules regarding partnerships, and their status in these matters is exactly the same as that of a sole proprietor.

126. A limited partnership confers limited liability on partners designated as "limited partners" in the partnership deed, provided that they take no active part in the management of the partnership business. If they do so, their liability becomes unlimited. There must be at least one active or "general" partner whose liability is unlimited.

Other Forms of Business Organization—Sole Proprietor

127. A sole proprietor (referred to in the United Kingdom as a sole trader) is an individual engaged in a business or profession on a personal account. A sole trader is subject to the registration requirements common to all forms of business organization—the most important of which is probably for the purpose of value added tax (sales tax, or VAT). There is no legal requirement for a sole trader to keep books of account in any particular form, although this helps for tax purposes. Also, certain minimum

records are required for value added tax and for the Pay-As-You-Earn (PAYE) system's (income tax withholding) purposes. The accounts of a sole trader need not be audited or publicly disclosed.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

128. An offer to sell new securities must be accompanied by a prospectus complying with Schedule 3 of the Companies Act 1985. There is no requirement to have a public offer for sale underwritten. A prospectus must include a report by a reporting accountant (who may or may not be the statutory auditor) on the last five years' financial statements and the prospectus must be filed with the Registrar of Companies. If the securities are to be listed on The Stock Exchange or the Unlisted Securities Market (USM), the prospectus must comply with the additional rules and regulations of The Stock Exchange, and The Stock Exchange must approve the prospectus document.

Requirements for Listing Securities on The Stock Exchange

129. The rules and regulations governing the listing of securities and listed securities are set forth in The Stock Exchange's *Admission of Securities to Listing*, generally known as the *Yellow Book*. These rules were revised, effective January 1985, as a result of European Economic Community directives to harmonize the minimum requirements for listing throughout the EEC.

130. When a listing is sought, the application must be accompanied by a prospectus. Such prospectus must include the following: (*a*) general information about the issuer, its activities, and management; (*b*) financial information, including profit and loss accounts, balance sheets and statement of source and application of funds for the last five years; (*c*) recent developments and prospects of the issuer; and (*d*) a statement concerning the adequacy of working capital.

131. Once a company is listed, it must publish regular information about its activities, including the issuance of annual audited accounts, unaudited interim (semiannual) and unaudited, preliminary annual profit announcements, as well as details of major transactions, such as a major acquisition or disposal of a company. If The Stock Exchange considers the information inadequate with the potential of establishing a false market in the securities, it has the right to publish information itself or to suspend the listing, or both.

Impact on Accounting Requirements

132. The financial statements included in the prospectus may incorporate adjustments the reporting accountant considers appropriate—for example, adjustments to reflect changes in accounting policies or to allocate prior-year adjustments to the correct period. The Stock Exchange requires both listed companies and companies traded on the Unlisted Securities Market to provide specified information in their annual accounts in addition to that required by the Companies Act 1985 (see the *Yellow Book,* section 5, chapter 2, and *General Undertaking,* applicable to USM companies). Auditing Guideline 412, *Prospectuses and the Reporting Accountant,* provides procedural and reporting guidance for accountants' reports prepared for inclusion in prospectuses, listing particulars, circulars, and similar documents. It also provides guidance on comfort letters, which the reporting accountant must prepare frequently.

TAXES

Principal Types

133. The principal taxes in the United Kingdom are corporation tax (including advance corporation tax), capital gains tax, value added tax, income tax and inheritance tax. Other taxes include the general rates (real property tax), petroleum revenue tax, and social security contributions.

Corporation Tax

134. Corporation tax is assessed on companies resident in the United Kingdom based on total profits (that is, income and capital gains) and upon nonresident corporations based on profits from sources within the United Kingdom. The tax rate is established for the tax year ended March 31. The rate was 40 percent for the year ending March 31, 1986, and it will be 35 percent for the year ending March 31, 1987. The effective rate for capital gains is 30 percent.

135. A reduced rate (the *small companies' rate*) applies to the income (not the capital gains) of a U.K. company whose annual profits do not exceed £100,000. Marginal relief applies if the profits are between £100,000 and £500,000 in the accounting period. The small companies' rate was 30 percent for the year ending March 31, 1986, and will be 29 percent for the year ending March 31, 1987.

136. Profits subject to corporation tax are computed under three headings—trading income, investment income, and capital gains. Investment income is passive income, such as interest and rent. Dividends received from U.K. companies carry a tax credit (representing advance corporation tax paid by the paying company) and are not subject to corporation tax in the hands of the recipient company. The income is termed "franked investment income" (FII).

137. Taxable trading income is generally determined by applying certain adjustments required by the tax laws to the trading income before the taxation is shown in the audited annual accounts. Except for these adjustments, the treatment of an item for tax purposes generally follows that adopted in the accounts.

138. An adjustment must be made for depreciation, which is not an allowable tax expense. Instead, capital allowances, which represent statutory tax depreciation, are deductible. The main types of expenditures on which capital allowances are available are industrial buildings and structures, and machinery and equipment. In general, no allowance is available for office buildings, showrooms, shops, other nonindustrial buildings, or goodwill.

139. The disposal of assets qualifying for capital allowances may result in an adjustment (for capital allowances previously

claimed) being added to or deducted from the trading income. If certain assets (such as land and buildings or fixed plant or machinery) are sold at a capital gain (that is, the sales proceeds exceed the original cost as indexed to reflect inflation) and the proceeds are reinvested in replacement equipment, the gain may be deferred at the taxpayer's option by reducing the tax base cost of the new equipment. The gain need not be recorded as a reduction of the cost of the new equipment for financial reporting purposes to obtain the tax deferment. If deferral is not available, a gain or loss on disposal of assets is treated as a capital gain or loss for corporation tax purposes.

140. Losses incurred in a company's trade or business may be offset against either total profits of the same period, or an immediately preceding period of similar length, or a surplus of franked investment income. The latter offset results in a recovery of an appropriate proportion of the tax credit on the dividends received. The losses may also be carried forward indefinitely and offset against future trading income of the same trade or, under certain conditions, transferred to other companies in the group.

141. Although capital losses may not be offset against taxable income or carried back, they may be carried forward indefinitely for offset against future capital gains.

Advance Corporation Tax

142. A company paying a dividend must deduct and pay advance corporation tax to the Inland Revenue (the taxing authority in the United Kingdom). The rate is 29 percent of the gross dividend from April 6, 1986 to April 5, 1987. A company receives such a dividend as franked investment income and must pay ACT only on the excess of dividends paid over dividends received in the period.

Capital Gains Tax

143. Companies pay corporation tax on their net capital gains at an effective rate of 30 percent. Individuals pay capital gains tax at 30 percent on net capital gains in the tax year, less losses brought forward (although a certain amount of these gains is exempt each fiscal year). The amount of a capital gain is determined by applying a complicated system of indexation to the

allowable expenditures and any lasting enhancement expenditures.

Value Added Tax

144. Value added tax is levied at a standard rate of 15 percent on all supplies of goods and services in the United Kingdom, except for zero-rated and exempt supplies. A person selling standard or zero-rated supplies may reclaim tax charged by suppliers; a person selling only exempt supplies may not. Regardless of the nature of the supply, only registered traders may charge or reclaim VAT. A trader must register if annual taxable turnover is greater than £20,500 (or £7,000 per quarter), although there are provisions for voluntary registration. These limits apply from March 19, 1986; previously, the limits were £19,500 and £6,500, respectively.

Income Tax

145. Income tax is assessed on the total income of resident individuals and on any U.K. income of nonresidents. The lowest rate for the year ended April 5, 1986, was 30 percent charged on annual taxable income up to £16,200; for the year ending April 15, 1987, the lowest rate will be 29 percent charged on annual taxable income up to £17,200.

146. Under the imputation system, an individual who receives dividends from U.K. companies receives a tax credit equal to his or her share of the ACT paid with respect to those dividends and can offset the credit against a liability for income tax on dividend income.

Inheritance Tax

147. Inheritance tax is charged on a U.K.-domiciled individual's estate on death, and on gifts made within seven years of death. For non-U.K.-domiciled individuals the tax applies to U.K. property only.

148. Tax is charged according to the level of cumulative transfers in the last seven years. From March 18, 1986, onwards the first £71,000 is exempt, and the top rate on death is 60 percent

for cumulative totals of £317,000 upwards. Gifts made within seven years of death attract tax at a reduced rate. Certain other lifetime gifts (for example, gifts into trusts) are also taxable.

149. Up to March 17, 1986, the tax was known as "capital transfer tax" and applied to all lifetime gifts by individuals and the estate on death.

Other Taxes

150. General rates are levied by local authorities on the imputed annual rental value of land and buildings. Petroleum revenue tax (PRT) is charged at 75 percent on the profits from oil and gas earned in the United Kingdom and the U.K. sector of the Continental Shelf. Social security contributions (National Insurance) are payable by both employer and employee and are calculated as a percentage of earnings up to a given maximum for employees' contributions but without limit for employers' contribution. Self-employed persons also pay National Insurance, on a flat-rate and earnings-related basis.

Tax Returns

151. A company that owes tax for any accounting period can be required to file a return of its profits, as computed for tax purposes, by the Inland Revenue. If such a return has not been filed within one year after the end of the appropriate accounting period, the company must notify the Inland Revenue that it owes tax. The return must specify the income from each source considered in computing the profits, and it must give details of gains or losses on capital disposals and deductible charges against income. These details are normally supplied by submitting the audited financial statements of the company, together with tax computations showing the adjustment of the profits for tax purposes and other information required.

152. A return form may be issued by the Inspector of Taxes for completion by the company, but use of this form is rare in practice because the information it requires is normally included in the tax computations. The tax payable on the profits for the accounting period (normally the company's financial year) is assessed by the Inspector of Taxes and is paid by the company

to the Collector of Taxes. Payment is normally nine months after the end of the accounting period. Interest at 11 percent is charged on late payment of tax, and penalties may be charged in cases of neglect, fraud, or willful default. Interest and penalties may also be charged if returns are submitted late.

153. Returns for advance corporation tax are filed on a quarterly basis for the quarters ending March 31, June 30, September 30, and December 31. A return is also submitted up to the company's year-end, if different from the filing period. Any ACT due must be paid when the return is filed, fourteen days from the end of the quarter. Quarterly income tax due by the company must also be paid within fourteen days of the quarter's end.

154. Individuals liable for U.K. tax are usually required to submit an annual return showing income for the year and a computation of chargeable gains within thirty days after issuance by the Inland Revenue, although additional time is normally allowed. Annual returns may not be required from individuals whose only income is from employment and is taxed under the PAYE system. Details of chargeable gains may not be required if such gains do not exceed the exempt limit for the year (as long as disposal proceeds do not exceed twice that amount). Tax is payable either during or within nine months of the fiscal year-end, depending on the type of income being taxed.

OTHER MATTERS OF IMPORTANCE

Distributable Profits

155. Reserves not mandatory under U.K. law may be paid out as dividends, provided they represent distributable profits of the company. Distributable profits are defined as the net aggregate of the company's accumulated realized profits (not previously distributed or capitalized), less accumulated realized losses (not written off in a reduction or reorganization of capital). The company's articles may impose additional restrictions.

156. Public companies are subject to the further restriction that a dividend may only be paid if net assets after the payment

are at least equal to the total of share capital and undistributable reserves.

Treasury Shares

157. The Companies Act 1985 permits a company to redeem or purchase its own shares. A number of procedural requirements apply. If the articles authorize the purchase and it does not result in the company being without any outstanding unredeemable shares, a company can purchase its own shares out of distributable profits or (in the case of a private company, subject to other safeguards) out of capital. The shares must be cancelled on redemption or purchase, but new shares may be issued in their place.

The European Economic Community

158. One consequence of U.K. membership in the European Economic Community is the gradual harmonization of company law and other types of business regulation within the EEC. In the field of accounting and company law, a certain degree of standardization has already been achieved, and further measures are proposed. The Seventh Directive of the EEC on consolidated accounts and the Ninth Directive on groups of companies are likely to have a significant effect on the financial statements of U.K. companies.

APPENDIX A

Outstanding Auditing Pronouncements

By April 1986, the following Auditing Standards and Guidelines had been approved.

Auditing Standards

101 *The Auditor's Operational Standard*
102 *The Audit Report*
103 *Qualifications in Audit Reports*

Auditing Guidelines—Operational

201 *Planning, Controlling and Recording*
202 *Accounting Systems*
203 *Audit Evidence*
204 *Internal Controls*
205 *Review of Financial Statements*

Auditing Guidelines—Industries

301 *Charities*
302 *Building Societies*
303 *Trade Unions and Employers' Associations*
304 *Housing Associations*

Auditing Guidelines—Detailed Operational

401 *Bank Reports for Audit Purposes*
402 *Events After the Balance Sheet Date*

403 *Amounts Derived From the Preceding Financial Statements*
404 *Representations by Management*
405 *Attendance at Stocktaking*
406 *Engagement Letters*
407 *Auditing in a Computer Environment*
408 *Reliance on Internal Audit*
409 *Quality Control*
410 *The Auditor's Considerations in Respect of Going Concern*
411 *Financial Information Issued With Audited Financial Statements*
412 *Prospectuses and the Reporting Accountant*
413 *Reliance on Other Specialists*

Auditing Guidelines—Audit Reports

501 Audit Report Examples (17 issued to date)
502 Auditors' Reports and SSAP 16, *Current Cost Accounting*

The statements on auditing matters previously released before 1981 have, until they are superseded and withdrawn, the same status as auditing guidelines. The following statements were released previously by the Institute of Chartered Accountants in England and Wales and are still outstanding.

901 *Verification of Debtor Balances: Confirmation by Direct Communication*
903 *Stock in Trade and Work in Progress*
906 *The Ascertainment and Confirmation of Contingent Liabilities Arising From Pending Legal Matters*
907 *Group Accounts—Reliance on Other Auditors*
909 *Guidance for Auditors on the Implications of Goods Sold Subject to Reservation of Title*
910 *Auditors' Report—Registered Friendly Societies and Industrial and Provident Societies*
913 *Accountants' Reports for Prospectuses: Fixed Assets and Depreciation*
914 *Accountants' Reports for Prospectuses: Adjustments and Other Matters*
915 *Special Reports of Accountants*
916 *Accountants' Reports for Prospectuses and Similar Documents: Absence of Detailed Stock Records*
917 *Reports on Accounts of Sole Traders and Partnerships*
918 *Accountants' Reports on Profit Forecasts*
919 *UEC Statements*
920 *Auditors' Reports on the Returns of Insurance Companies*
921 *Auditors' Relationships With Actuaries Concerning Actuarial Valuations of Long-Term Business Funds of Insurance Companies*

922 *Auditors' Responsibilities Under the Insurance Companies (Accounts and Statements) Regulations 1980*

The standard-setting body has also issued a series of "audit briefs," which provide nonmandatory guidance or background information on specific topics. The following audit briefs have been issued to date.

Audit Committees: Their Role in U.K. Companies
Small Companies: the Need for Audit?
What Is an Audit?
Some Audit Implications of SSAP 16
Materiality
Special Reports of Accountants
Directors' Loans, Other Transactions, and Remuneration
The Companies Act 1985 and the Auditor
Lloyds' Syndicates
The Auditor and Fraud

APPENDIX B

Statements of Standard Accounting Practice and Statements of Recognized Practice

	Statements of Standard Accounting Practice	For accounting periods beginning on or after
SSAP 1	*Accounting for Associated Companies* (Revised 1982)	January 1, 1971
2	*Disclosure of Accounting Policies*	January 1, 1972
3	*Earnings Per Share* (Revised 1974)	January 1, 1972
4	*The Accounting Treatment of Government Grants*	January 1, 1974
5	*Accounting for Value Added Tax*	January 1, 1974
6	*Extraordinary Items and Prior Year Adjustments* (Amended 1978)	January 1, 1974
7	*Withdrawn*	
8	*The Treatment of Taxation Under the Imputation System in the Accounts of Companies* (Amended 1977)	January 1, 1975
9	*Stocks and Work in Progress* (Amended 1980)	January 1, 1976
10	*Statements of Source and Application of Funds* (Amended 1978)	January 1, 1976
11	(Replaced by SSAP 15)	
12	*Accounting for Depreciation* (Revised 1981)	January 1, 1978
13	*Accounting for Research and Development*	January 1, 1978
14	*Group Accounts*	January 1, 1979
15	*Accounting for Deferred Taxation*	January 1, 1979 (Revised May 1985)
16	*Current Cost Accounting*	January 1, 1980 (Mandatory status withdrawn June 1985)
17	*Accounting for Post Balance Sheet Events*	September 1, 1980
18	*Accounting for Contingencies*	September 1, 1980
19	*Accounting for Investment Properties*	July 1, 1980

20	*Foreign Currency Translation*	April 1, 1983
21	*Accounting for Leases and Hire Purchase Contracts*	July 1, 1984
22	*Accounting for Goodwill*	January 1, 1985
23	*Accounting for Acquisitions and Mergers*	April 1, 1985

Statements of Recognized Practice*

General

SORP 1 *Pension Scheme Accounts* May, 1986

Specific

Disclosures About Oil and Gas Exploration and Production Activities April, 1986

*Two categories of SORPs are issued—those that are general in nature and numbered, and those that pertain to specific industries and are not numbered.

APPENDIX C

Illustrative Auditors' Report and Financial Statements

The following financial statements are taken from the 1985 annual report of the BICC Public Limited Company. The statements presented are not intended to include all information that U.K. law requires (such as the directors' report).

To the members of
BICC Public Limited Company

We have audited the accounts on pages 62 to 95 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets, give a true and fair view of the state of affairs of the Company and the Group at 31 December 1985 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Arthur Andersen & Co
Chartered Accountants

London, 26 March 1986

PRINCIPAL ACCOUNTING POLICIES

1 Basis of accounting

The accounts have been prepared under the historic cost convention and in accordance with the statutory accounting principles and rules, except for the revaluation of certain fixed assets and the inclusion of attributable profit in the valuation of contracting work in progress.

The accounts comply with Statements of Standard Accounting Practice (SSAP) with the following exceptions:

a) The Group's share of related companies' sales has been included in Group turnover. This is considered appropriate because a significant part of the Group's interest in related companies comprises companies necessarily established overseas to carry on manufacturing and contracting activities. The impact is quantified in note 3 on page 67.

b) Most copper employed in UK refining activities has been valued using the base stock method. This policy is considered appropriate as it avoids fluctuations in earnings which would otherwise arise due to volatile movements in the copper price. The impact is quantified in note 16 on page 75.

In the opinion of the directors the exceptions are required to ensure that the accounts give a true and fair view. In the context of the overall presentation of the Group's performance, the impact of the exceptions is not considered significant by either the directors or the auditors.

Provisions are made against profit before interest for the attributable retained profits of overseas subsidiary and related companies where it is considered that restrictions on repatriation may arise.

2 Basis of consolidation

The consolidated accounts include the audited accounts of the Holding Company and its subsidiaries made up to 31 December, together with the Group's share of the results of related companies.

Where subsidiary and related companies are acquired or sold during a year, the Group profit and loss account includes their results from the date of acquisition or to the date of sale.

Goodwill arising on consolidation, representing the excess of purchase consideration over the fair value of the net tangible assets acquired, is written off against reserves in the year of acquisition.

3 Investments

The Group's investments in related companies are stated at the Group's share of net tangible asset values, plus net loans due from such companies, less amounts written off. Other Group investments are stated at cost plus loans, less amounts written off. The excess of attributable net tangible assets of related companies over their cost is included in the Group's revaluation reserve.

The Holding Company's investments are stated at cost less net loans due to such companies and amounts written off.

4 Contracting

Profit on contracting activities is taken as work progresses. Unless a more conservative approach is necessary, the percentage margin on each individual contract is the lower of margin earned to date and that forecast at completion, taking account of agreed claims. Profit is recognised on property developments when they are subject to a substantially unconditional contract for sale. Full provision is made for all known or expected losses at completion immediately [as] such losses are forecast on each contract. Profit is not taken on contracts in certain overseas territories where it is considered that restrictions on repatriation may arise. Profit for the year includes settlement of claims arising on contracts completed in prior years.

The Group's share of the net assets of contracting joint ventures is included under each relevant heading within the balance sheet.

5 Overseas currencies

In individual companies overseas monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date, unless covered by a forward exchange contract, when the contracted rate is used. Non-monetary assets and liabilities are recorded at the rate of exchange ruling at the time of the transaction and are not subsequently adjusted. Exchange gains and losses are included in the profit and loss account unless they arise from the retranslation of intra-group loans which are considered to be a long term investment when they are included as a movement on reserves.

On consolidation, the balance sheet of each overseas company is translated into sterling at the rate of exchange ruling at the balance sheet date and the profit and loss account at the average rate of exchange for the year. This is a change from the accounting policy adopted in previous years when the profit and loss account of each overseas company was translated into sterling at the rate of exchange ruling at the balance sheet date. The revised accounting policy is considered more appropriate in the light of the increasing volatility of exchange rates. Comparative figures have been restated and the impact of the change is set out in note 14(a) on page 71.

Gains and losses arising on the translation into sterling of the net assets of overseas subsidiary and related companies are included as a movement on reserves. Where the net assets of overseas subsidiary companies are matched by foreign currency borrowings, the gains and losses arising on the restatement of such borrowings are also included as a movement on reserves.

6 Turnover

Turnover represents amounts invoiced to outside customers, except in respect of contracting activities where turnover represents the value of work carried out during the year for outside customers including estimates in respect of amounts not invoiced. Turnover includes the Group's share of sales by related companies and joint ventures and excludes value added tax.

Export turnover includes work carried out abroad relating to materials supplied by, and engineering services rendered by, UK group companies and includes intra-group sales.

7 Extraordinary items

Full provision for losses associated with businesses being discontinued, including redundancy and other closure costs, is made as a charge in extraordinary items.

8 Depreciation

Depreciation is calculated on the cost or valuation of tangible fixed assets, after deducting government grants, and is charged on the straight line basis so as to write down assets over their expected useful lives.

The principal annual rates of depreciation used are as follows:

Freehold land	Nil
Freehold buildings	2.5%
Leasehold land and buildings:	
more than 40 years unexpired	2.5%
less than 40 years unexpired	equally over life of lease
Plant and equipment	4% to 33%

9 Leased assets

Assets held under finance leases are treated as tangible fixed assets; depreciation is provided accordingly and the deemed capital element of future rentals is included under borrowings. Deemed interest, calculated on a reducing balance basis, is charged as interest payable over the period of the lease.

The rental costs arising from operating leases are charged against profit before interest as they arise.

10 Government grants

Government grants on capital expenditure are deducted from the cost of the relevant assets. Other government grants are credited to profit before interest.

11 Stocks

Work in progress in manufacturing activities and all stocks are valued at the lower of cost and net realisable value, except for the UK base stock of copper which is valued at a fixed price below net realisable value. Cost incorporates conversion costs incurred, including depreciation and other related fixed and variable production overheads.

In contracting activities, work in progress is valued at estimated sales value except for land and property developments not subject to a substantially unconditional contract for sale which are valued at the lower of cost, which includes interest charges on external borrowings directly related to specific development projects, and estimated sales value. Provision for all known or expected losses at completion and applications for progress payments are deducted from work in progress to the extent of the valuation on each contract. If a provision exceeds the valuation, the excess is included in provisions. If applications for progress payments exceed the valuation net of provisions, the excess is included in other creditors as advance payments.

The inclusion of attributable profit in contracting work in progress is in accordance with SSAP 9. This constitutes a departure from statutory accounting principles and rules but, in the opinion of the directors, is required to ensure that the accounts give a true and fair view. As progress payments cannot meaningfully be allocated between cost and profit, it is impractical to determine the effect of this departure on the net amount of contracting work in progress.

12 Deferred taxation

Provision is made for deferred taxation under the liability method at the rates ruling at the balance sheet date. Timing differences arising from capital allowances are fully recognised in view of the difficulties inherent in forecasting future levels of eligible capital expenditure and leasing.

Provision is not made for the taxation which would be payable if the retained profits of overseas subsidiary and related companies were remitted to the UK, or which would arise on any excess of the sale proceeds over the cost of land and buildings if they were to be sold at their revalued amounts.

Unrecovered advance corporation tax on dividends paid and proposed is deducted from UK deferred taxation up to a maximum amount equivalent to 30/40ths (1984: 30/45ths) thereof; the balance is written off.

BICC PLC BALANCE SHEETS
(At 31 December)

	Notes	BICC Group 1985 £m	BICC Group 1984 £m	BICC plc 1985 £m	BICC plc 1984 £m
Fixed assets					
Tangible assets	15	277	309	97	90
Investments	21	38	35	102	155
		315	344	199	245
Current assets					
Stocks	16	315	360	78	75
Debtors	17	359	400	134	116
Cash at bank and in hand	18	66	56	1	1
		740	816	213	192
Creditors: amounts falling due within one year					
Borrowings	19	(53)	(97)	(19)	(51)
Other	20	(486)	(504)	(117)	(116)
Net current assets		201	215	77	25
Total assets less current liabilities		516	559	276	270

Creditors: amounts falling due after more than one year					
Borrowings	19	(80)	(72)	(45)	(22)
Other		(7)	(14)	—	—
Provisions for liabilities and charges	25	(43)	(53)	(12)	(16)
		(130)	(139)	(57)	(38)
		386	420	219	232
Capital and reserves					
Called up share capital	22	98	98	98	98
Share premium account	24	95	94	95	94
Revaluation reserve	24	25	27	2	2
Other reserves	24	22	22	15	24
Profit and loss account	24	39	87	9	14
		279	328	219	232
Minority interests	26	107	92	—	—
		386	420	219	232

BICC PLC GROUP PROFIT AND LOSS ACCOUNT
(For the year ended 31 December)

	Notes	1985 £m	1984 £m
Turnover	1 & 2	2,109	2,031
Profit before interest	3	111	102
Net interest payable	6	19	15
Profit on ordinary activities before taxation	1 & 7	92	87
Taxation	8	36	39
Profit on ordinary activities after taxation		56	48
Minority interests and preference dividends	10	17	12
Attributable profit before extraordinary items		39	36
Extraordinary items	11	11	12
Attributable profit for the year	9	28	24
Ordinary dividends	12	21	20
Retained profit for the year	24	7	4
		p	p
Earnings per ordinary share before extraordinary items	13	20.3	18.5
Dividends per ordinary share	12	11.0	10.54

Comparative figures for 1984 have been restated—see note 14(a) on page 71.

BICC PLC GROUP SOURCE AND APPLICATION OF FUNDS
(For the year ended 31 December)

	1985 £m	1984 £m
Sources		
Profit before taxation	92	87
Depreciation	49	50
Related companies' adjustments	(7)	(4)
Exchange adjustments on sources	(8)	5
	126	138

Applications		
Capital expenditure, net of disposals	(70)	(76)
Working capital (increase)/decrease:		
Stocks	(24)	(34)
Debtors	(8)	(35)
Other creditors and provisions	20	45
Taxation paid	(24)	(33)
Dividends paid:		
by BICC plc	(21)	(20)
to minority shareholders	(8)	(8)
Exchange adjustments on opening net borrowings—note 27	7	(5)
Other	4	1
	(124)	(165)
Funds (absorbed)/generated in ordinary activities	2	(27)
Cost of acquisition of companies—note 27	(2)	(7)
Proceeds of sale of companies—note 27	18	16
Extraordinary items	(14)	(8)
Total funds (absorbed)/generated	4	(26)
Provided by:		
Ordinary shares issued	1	—
Minority interests—issue of redeemable preference capital	41	—
Borrowings falling due after more than one year—increase/(decrease)	8	6
Short-term borrowings, net of cash—increase/(decrease)	(54)	20
	(4)	26

Note: The movements in borrowings and cash are the differences between the opening and closing balance sheets. Profit before taxation and depreciation are at average rates of exchange, comparative figures for 1984 having been restated. Other movements are at year-end rates of exchange.

On behalf of the Board: William Barlow
R. F. Morgan
Directors

26 March 1986

NOTES TO THE ACCOUNTS

1 Performance by group company	Turnover 1985 £m	Turnover 1984 £m	Profits 1985 £m	Profits 1984 £m
Balfour Beatty	827	740	21.4	21.3
BICC Cables	514	492	27.1	23.5
BICC International	627	650	60.0	50.7
BICC Technologies	194	203	8.8	15.4
Corporate			(6.6)	(9.2)
Intra-group trading	(53)	(54)		
	2,109	2,031		
Profit before interest			110.7	101.7
Net interest payable			(18.7)	(14.8)
Profit on ordinary activities before taxation			92.0	86.9
The profit before interest of BICC Technologies includes the following amounts for the Boschert subsidiaries which were sold in December 1985:				
Trading (losses)/profits			(5.6)	3.3
Property profits			3.5	—

2 Turnover	1985 £m	1984 £m
Australasia	520	516
North America	193	191
Africa	119	165
Near and Middle East	107	104
Continental Europe	112	97
Western Asia and Far East	115	120
South and Central America	39	29
Total overseas	1,205	1,222
United Kingdom	904	809
	2,109	2,031

Turnover above is analysed by destination. Overseas turnover includes export sales from the UK of £275m (1984: £231m).

3 Profit before interest	1985 £m	1984 £m
Turnover	2,109.2	2,031.1
Less Group share of sales by related companies	140.0	104.7
	1,969.2	1,926.4
Cost of sales	1,588.6	1,534.6
Gross profit	380.6	391.8
Administrative expenses	(186.9)	(188.7)
Distribution expenses	(99.6)	(104.2)
Share of profits less losses of related companies, of which losses of £0.1m (1984: £0.5m) arise in listed companies	12.5	3.6
Other operating income/(expense)	4.1	(.8)
Profit before interest	110.7	101.7
Profit before interest is stated after crediting/ (charging):		
Profit on redemption of debentures and bonds	.2	.1
Income from investments	.2	.3
Profits/(losses) arising from fluctuations in the valuation of copper included in stocks of overseas companies	3.7	(.5)
Depreciation	(48.5)	(50.4)
Hire charges for plant and equipment	(13.9)	(12.8)
Auditors' remuneration, of which BICC plc was £0.3m (1984: £0.3m)	(1.6)	(1.7)

4 Employees	1985 £m	1984 £m
Employee costs during the year amounted to:		
Wages and salaries	460.2	449.4
Social security costs	36.0	38.8
Other pension costs	24.5	24.6
	520.7	512.8

The average weekly number of employees was as follows:	1985	1984
Balfour Beatty	20,763	20,472
BICC Cables	9,589	11,150
BICC International	8,992	9,358
BICC Technologies	6,583	7,000
Corporate	492	511
	46,419	48,491

The table which follows shows the number of senior employees of BICC plc whose emoluments, excluding pension fund contributions, were, in respect of duties wholly or mainly discharged in the United Kingdom, within each of the ranges stated.

	1985	1984
£60,001 to £65,000	2	—
£55,001 to £60,000	4	—
£50,001 to £55,000	7	2
£45,001 to £50,000	12	6
£40,001 to £45,000	19	16
£35,001 to £40,000	30	21
£30,001 to £35,000	58	38

5 Directors' emoluments	1985 £m	1984 £m
The remuneration of directors of BICC plc was:		
Fees as directors	.052	.051
Other emoluments	1.017	1.254
Pensions to past directors	.136	.280
Compensation to former directors in respect of early retirement from executive office	.158	—
	1.363	1.585

The number of directors waiving the right to receive emoluments for 1985 was one (1984: one) and the amount was £9,000 (1984: £6,000).

The emoluments of the Chairman amounted to £133,075 (1984: previous Chairman £107,756).

The table which follows shows the number of directors, excluding the Chairman, whose emoluments excluding pension fund contributions were, in respect of duties wholly or mainly discharged in the United Kingdom, within each of the ranges stated.

	1985	1984
£85,001 to £90,000	1	—
£80,001 to £85,000	2	1
£75,001 to £80,000	1	3
£70,001 to £75,000	1	—
£60,001 to £65,000	—	3
£50,001 to £55,000	1	1
£45,001 to £50,000	—	2
£40,001 to £45,000	1	—
£25,001 to £30,000	—	1
£20,001 to £25,000	—	1
£15,001 to £20,000	1	—
£10,001 to £15,000	2	—
£ 5,001 to £10,000	2	2
Up to £5,000	1	2

6 Net interest payable	1985 £m	1984 £m
Loans—wholly repayable within 5 years	2.4	3.3
—other	2.0	2.9
Lease finance	2.0	1.7
Bank loans and overdrafts	20.4	14.7
	26.8	22.6
Short-term deposit interest receivable	(8.1)	(7.8)
	18.7	14.8

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation includes exchange profits of £1.7m (1984: losses of £1.0m) arising from the retranslation and repayment of foreign currency cash and borrowings including short-term intra-group loans.

Exchange profits of £1.1m (1984: losses of £1.3m) arising from the retranslation of foreign currency borrowings which match investments in overseas companies are included in reserves as exchange adjustments.

8 Taxation	1985 £m	1984 £m
UK		
Corporation tax	5.3	7.3
Double taxation relief	(2.5)	(4.3)
	2.8	3.0
Deferred taxation	(.9)	6.2
Advance corporation tax written off	4.8	.9
	6.7	10.1
Related companies	1.9	.6
	8.6	10.7
Overseas		
Main charge	27.8	26.5
Deferred taxation	(1.2)	1.1
	26.6	27.6
Related companies	1.2	1.1
	27.8	28.7
	36.4	39.4

Taxation has been reduced by prior year adjustments of £6.6m (1984: £1.0m) less advance corporation tax of £3.6m (1984: nil).

UK taxation is based on a corporation tax rate of 50% to 31 March 1984, 45% from 1 April 1984 to 31 March 1985 and 40% thereafter.

9 Attributable profit for the year	1985	1984
	£m	£m
Dealt with by BICC plc	17.7	18.3
Retained by subsidiary companies	6.7	4.6
Retained by related companies	3.5	1.1
	27.9	24.0

No profit and loss account is presented for BICC plc as provided by the Companies Act 1985, Section 228.

10 Minority interests and preference dividends	1985	1984
	£m	£m
Minority interests	16.6	12.0
Preference dividends	.1	.1
	16.7	12.1

11 Extraordinary items	1985	1984
	£m	£m
Losses on discontinuance of businesses	(11.1)	(20.8)
Losses on sales of and provisions against investments	(1.2)	(1.8)
Gains on sales of investments	.7	6.8
	(11.6)	(15.8)
Taxation relief thereon, including overseas taxation of £0.1m (1984: £1.1m)	3.0	6.7
Amount applicable to minority interests	(.2)	1.1
Advance corporation tax written off	(2.2)	(3.4)
	(11.0)	(11.4)

12 Ordinary dividends	1985		1984	
	Per share	Amount	Per share	Amount
	p	£m	p	£m
Interim payable	3.5	6.7	3.50	6.7
Final proposed	7.5	14.4	7.04	13.5
	11.0	21.1	10.54	20.2

13 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the attributable profit before extraordinary items of £38.9m (1984: £35.4m) and on the weighted average number of shares in issue during the year of 191.3m (1984: 190.9m).
On a 'nil distribution' basis earnings per ordinary share would increase by 2.5p to 22.8p (1984: increase by 0.5p to 19.0p).

14 Overseas companies

(a) Change in accounting policy
Comparative figures for 1984 have been restated to reflect the change in accounting policy whereby the profit and loss account of each overseas company is translated at the average rate of exchange instead of that ruling at the balance sheet date. The impact has been to decrease performance in 1984 by comparison with that previously published by the following amounts:

	£m
Turnover	58
Profit before interest	4.1
Profit on ordinary activities before taxation	3.4
Profit on ordinary activities after taxation	2.1
Attributable profit for the year	0.8
Earnings per ordinary share	0.7p

(b) Impact of movement in exchange rates
As a result of the change in the value of sterling relative to other currencies, performance as published for 1985 has been reduced by comparison with using average 1984 rates of exchange by the following amounts:

	£m
Turnover	162
Profit before interest	12.9
Profit before taxation	12.0
Profit after taxation	7.0
Attributable profit for the year	3.9
Earnings per ordinary share	2.0p

(Notes continued on next page.)

15 Tangible fixed assets

(a) Movements—BICC Group

	Land and buildings £m	Plant and equipment Purchased £m	Plant and equipment Leased £m	Assets in course of construction £m	Total £m
Cost or valuation:					
At 1 January 1985	115.1	386.5	52.3	27.9	581.8
Exchange adjustments	(17.8)	(55.1)	(4.5)	(4.2)	(81.6)
Additions at cost	11.1	63.2	9.9	6.3	90.5
Government grants	—	(3.4)	—	—	(3.4)
Revaluations	1.5	1.6	—	—	3.1
Reclassifications	4.2	4.1	11.5	(19.8)	—
Disposals	(12.3)	(16.5)	(2.5)	—	(31.3)
Subsidiaries now related companies	(3.1)	(15.2)	(.9)	—	(19.2)
Subsidiaries sold	(1.1)	(6.4)	(1.2)	(.2)	(8.9)
At 31 December 1985	97.6	358.8	64.6	10.0	531.0
Depreciation:					
At 1 January 1985	27.3	224.9	20.4	—	272.6
Charge for the year	3.0	36.8	8.7	—	48.5
Exchange adjustments	(4.2)	(31.9)	(1.9)	—	(38.0)
Revaluations	—	(2.0)	—	—	(2.0)
Disposals	(.7)	(11.6)	(2.0)	—	(14.3)
Subsidiaries now related companies	(.5)	(7.8)	(.3)	—	(8.6)
Subsidiaries sold	(.3)	(2.9)	(1.0)	—	(4.2)
At 31 December 1985	24.6	205.5	23.9	—	254.0
Net book value at 31 December 1985	73.0	153.3	40.7	10.0	277.0

Net book value at 31 December 1984	87.8	161.6	31.9	27.9	309.2

Additions at cost comprise £64.0m (1984: £67.2m) in manufacturing group companies and £26.5m (1984: £22.5m) in Balfour Beatty.

(b) Movements—BICC plc

	Land and buildings £m	Plant and equipment: Purchased £m	Plant and equipment: Leased £m	Assets in course of construction £m	Total £m
Cost or valuation:					
At 1 January 1985	33.7	119.0	22.0	12.0	186.7
Additions at cost	4.1	26.0	3.5	1.7	35.3
Government grants	—	(3.0)	—	—	(3.0)
Reclassifications	2.9	(3.7)	10.9	(10.1)	—
Disposals	(5.9)	(4.0)	(.4)	—	(10.3)
At 31 December 1985	34.8	134.3	36.0	3.6	208.7
Depreciation:					
At 1 January 1985	10.4	77.9	7.9	—	96.2
On additions from subsidiaries	.3	2.9	.1	—	3.3
Charge for the year	1.2	11.4	3.6	—	16.2
Disposals	(.4)	(3.4)	(.3)	—	(4.1)
At 31 December 1985	11.5	88.8	11.3	—	111.6
Net book value at 31 December 1985	23.3	45.5	24.7	3.6	97.1
Net book value at 31 December 1984	23.3	41.1	14.1	12.0	90.5

15 Tangible fixed assets (*continued*)

(c) Analysis of net book value of land and buildings

	BICC Group		BICC plc	
	1985	1984	1985	1984
	£m	£m	£m	£m
Freehold	69.0	79.3	22.0	22.6
Long leasehold—over 50 years unexpired	2.2	2.5	.4	.5
Short leasehold	1.8	6.0	.9	.2
	73.0	87.8	23.3	23.3

(d) Valuations

Tangible fixed assets include the following amounts at valuation:

		BICC Group		BICC plc
At 31 December	Years of valuation	Land and buildings £m	Plant and equipment £m	Land and buildings £m
1985	1958 to 1980	18.5	9.3	5.5
	1981	3.5	2.9	—
	1985	2.3	5.0	—
Total at valuation		24.3	17.2	5.5
Depreciation		(3.4)	(9.8)	(.8)
Net book value		20.9	7.4	4.7
At 31 December 1984	1958 to 1978	20.3	8.8	5.5
	1980	5.3	5.5	—
	1981	3.8	2.9	—
Total at valuation		29.4	17.2	5.5
Depreciation		(4.4)	(13.7)	(.8)
Net book value		25.0	3.5	4.7

The 1985 valuation arose in an overseas subsidiary company and was made on an existing use basis by independent qualified valuers.

(Continued on next page.)

Original cost, and depreciation based on cost, of tangible fixed assets included at valuation:

	BICC Group		BICC plc
	Land and buildings £m	Plant and equipment £m	Land and buildings £m
At 31 December 1985			
Original cost	11.0	14.4	2.1
Depreciation based on cost	(4.0)	(10.7)	(1.0)
Net	7.0	3.7	1.1
At 31 December 1984			
Original cost	14.6	19.6	2.1
Depreciation based on cost	(4.9)	(18.7)	(.9)
Net	9.7	.9	1.2

16 Stocks	BICC Group		BICC plc	
	1985 £m	1984 £m	1985 £m	1984 £m
Contracting work in progress	1,089.7	1,017.2	.8	2.5
Progress payments received and receivable	(984.6)	(928.4)	(.6)	(2.5)
	105.1	88.8	.2	—
Manufacturing work in progress	59.2	68.3	22.6	19.8
Raw materials and consumables	62.5	81.3	25.9	26.4
Finished goods and goods for resale	88.1	121.9	29.5	28.6
	314.9	360.3	78.2	74.8

Raw materials of the Group include UK copper stocks of 5,500 tonnes (1984: 5,500 tonnes) valued on base stock principles at £3.2m (1984: £3.2m). The value based on the London Metal Exchange quotation at 31 December 1985 was £5.3m (1984: £6.3m). If the base stock had been valued on that basis, profit before interest in 1985 would have been decreased by £1.0m (1984: increased by £0.9m).

17 Debtors

	BICC Group		BICC plc	
	1985 £m	1984 £m	1985 £m	1984 £m
Amounts falling due within one year:				
Trade and other debtors	293.3	325.0	82.2	74.3
Amounts due from subsidiary companies	—	—	44.0	27.9
Amounts due from related companies	7.4	7.8	1.6	.9
Contract retentions	24.2	22.7	1.3	5.1
Prepayments and accrued income	18.5	23.8	3.6	4.9
	343.4	379.3	132.7	113.1
Amounts falling due after more than one year:				
Trade and other debtors	4.3	2.9	.6	.5
Contract retentions	11.1	18.2	.6	2.0
	15.4	21.1	1.2	2.5
	358.8	400.4	133.9	115.6

A secured loan of £5,000 was made by BICC plc under the Company's housing scheme to Dr. G. F. Moore in 1979 before his appointment as a director of BICC plc. The loan, on which interest was payable at a rate which varied between 11½% and 13½% per annum, subsisted from 1 January to 28 October 1985 when it was repaid.

18 Cash at bank and in hand

Group cash at bank and in hand includes:

a) Amounts placed by overseas subsidiary companies with commercial organisations other than banks of £10.0m (1984: £2.5m).

b) £3.7m (1984: £5.9m) the use of which is restricted to capital expenditure for specific overseas plants.

c) The Group share of amounts held by contracting joint ventures of £20.4m (1984: £17.3m).

19 Borrowings	BICC Group		BICC plc	
	1985 £m	1984 £m	1985 £m	1984 £m
Debenture stocks secured by a floating charge on the tangible assets of BICC plc and/or certain subsidiary companies:				
6½% debenture stock 1981/86	2.4	2.4	2.4	2.4
7% debenture stock 1985/90	3.8	3.9	3.8	3.9
7¾% debenture stock 1990/95	9.8	10.5	9.8	10.5
A$ 13½% debenture stock 1990	1.9	2.8	—	—
	17.9	19.6	16.0	16.8
Loans secured by a fixed charge on the tangible fixed assets of certain subsidiary companies:				
C$5¾% first mortgage sinking fund bonds 1985	—	1.2	—	—
US$ industrial development bonds:				
2003 with interest at 50% of US prime rate plus 2½%	—	2.6	—	—
1993/94 at 7¼% to 7¾%	1.5	1.9	—	—
Other loans at 2½% to 31½% repayable by 2001	2.4	2.8	—	—
	3.9	8.5	—	—

19 Borrowings (*continued*)

Loans and short-term borrowings secured by floating charge:				
US$ industrial development bonds:				
1992 at 6% to 6½%	6.6	8.2	—	—
1994 at 6⁷⁄₁₆% to 7¾%	1.8	2.2	—	—
Other	—	.4	—	—
	8.4	10.8	—	—
Unsecured loans and borrowings:				
9% loan 1985/90	6.0	7.0	—	—
10¼% loan 1980/88	1.0	1.3	—	—
11⅖% loan 1983/88	4.6	5.9	—	—
US$ 10¼% loan 1980/88	1.2	2.0	—	—
US$ 7¾% bonds 1975/87	1.7	3.7	—	—
Sundry loans at up to 17% repayable by 1992	1.5	1.5	—	—
Bank loans under committed revolving facilities expiring between 1987 and 1990 at variable market interest rates	15.0	—	15.0	—
Bank overdrafts and short-term loans	33.6	80.9	11.4	47.6
	64.6	102.3	26.4	47.6
Finance leases	38.2	27.3	22.2	9.2
	133.0	168.5	64.6	73.6

Borrowings are analysed as follows:

	BICC Group		BICC plc	
	1985	1984	1985	1984
	£m	£m	£m	£m
Bank borrowings	51.8	83.5	26.4	47.6
Other borrowings	81.2	85.0	38.2	26.0
	133.0	168.5	64.6	73.6

Borrowings are repayable in the following periods:

	BICC Group		BICC plc	
	1985	1984	1985	1984
	£m	£m	£m	£m
Amounts falling due after more than one year				
Over 5 years:				
by instalments	12.0	18.2	10.9	12.5
other than by instalments	8.4	13.3	—	—
2 to 5 years	37.4	24.3	23.1	5.0
1 to 2 years	21.7	16.3	11.2	4.9
	79.5	72.1	45.2	22.4
Amounts falling due within one year	53.5	96.4	19.4	51.2
	133.0	168.5	64.6	73.6

The total amounts outstanding at 31 December relating to loans repayable by instalments, any part of which is repayable after 5 years, is £14.2m (1984: £28.5m) for BICC Group and £11.7m (1984: £14.4m) for BICC plc.

(Notes continued on next page.)

20 Other creditors: amounts falling due within one year

	BICC Group		BICC plc	
	1985	1984	1985	1984
	£m	£m	£m	£m
Trade creditors	185.4	205.2	40.1	53.1
Advance payments from customers	94.1	73.2	.8	.3
Amounts due to subsidiary companies	—	—	9.5	1.6
Amounts due to related companies	2.3	2.4	.2	—
Corporate taxation	40.0	39.7	10.7	10.7
VAT, payroll taxes and social security	26.0	24.2	10.1	10.7
Other creditors	25.5	28.9	13.7	9.1
Dividends on ordinary shares	20.8	20.2	20.8	20.2
Accruals and deferred income	91.6	110.7	11.2	10.0
	485.7	504.5	117.1	115.7

21 Investments

The principal subsidiary companies are shown on pages 92–94 and principal related companies on pages 94–95.

(a) BICC Group	Related companies £m	Other £m	Total £m
Cost			
At 1 January 1985	12.9	7.9	20.8
Exchange adjustments	(.1)	(1.7)	(1.8)
Additions	2.6	1.6	4.2
Transfer from subsidiaries	5.1	—	5.1
Disposals	(.1)	(1.0)	(1.1)
At 31 December 1985	20.4	6.8	27.2
Adjustment to net tangible asset values			
At 1 January 1985	11.6	—	11.6
Retained profits/(losses) for the year	4.6	—	4.6
Exchange adjustments	(6.4)	—	(6.4)
Revaluations	.3	—	.3
Transfer from subsidiaries	.7	—	.7
At 31 December 1985	10.8	—	10.8

Provisions against investments			
At 1 January 1985	(1.3)	(5.8)	(7.1)
Exchange adjustments	—	1.0	1.0
Provided during the year	(1.8)	—	(1.8)
Transfer from provisions	(.7)	—	(.7)
Released during the year	—	.2	.2
At 31 December 1985	(3.8)	(4.6)	(8.4)
Loans due from investments			
At 1 January 1985	9.3	—	9.3
Movements	(.6)	—	(.6)
At 31 December 1985	8.7	—	8.7
Net book value at 31 December 1985	36.1	2.2	38.3
Net book value at 31 December 1984	32.5	2.1	34.6

Note: Investments at net book value include £4.7m (1984: £6.4m) in respect of investments listed on overseas stock exchanges. These investments have a market value of £4.1m (1984: £9.1m).

(b) BICC plc	Subsidiary companies £m	Related companies £m	Other £m	Total £m
Cost				
At 1 January 1985	104.8	2.3	4.4	111.5
Exchange adjustments	—	—	(1.1)	(1.1)
Additions	184.1	—	—	184.1
Disposals	(51.1)	—	(.2)	(51.3)
At 31 December 1985	237.8	2.3	3.1	243.2
Provisions against investments				
At 1 January 1985	(11.1)	(.1)	(3.7)	(14.9)
Exchange adjustments	—	—	1.0	1.0
Provided during the year	(.4)	—	—	(.4)
Disposals	.8	—	—	.8
At 31 December 1985	(10.7)	(.1)	(2.7)	(13.5)

21 Investments (*continued*)

Loans due from investments				
At 1 January 1985	159.9	7.5	—	167.4
Movements	(67.1)	(.4)	—	(67.5)
At 31 December 1985	92.8	7.1	—	99.9
Loans due to investments				
At 1 January 1985	(108.8)	(.4)	—	(109.2)
Movements	(118.4)	.4	—	(118.0)
At 31 December 1985	(227.2)	—	—	(227.2)
Net book value at 31 December 1985	92.7	9.3	.4	102.4
Net book value at 31 December 1984	144.8	9.3	.7	154.8

22 Share capital

	Authorised		Issued and fully paid	
	1985 £m	1984 £m	1985 £m	1984 £m
4.2% first cumulative preference stock-units of £1 each	.9	.9	.9	.9
3.85% second cumulative preference stock-units of £1 each	1.5	1.5	1.5	1.5
Ordinary shares of 50p each—authorised 250 million (1984: 250 million), issued 191.7 million (1984: 191.1 million)	125.0	125.0	95.9	95.6
	127.4	127.4	98.3	98.0

During 1985 fully paid ordinary shares were issued as follows:

	Number of shares	Consideration £m
Options exercised under the employees' share option schemes	191,694	0.3
Scrip dividends in lieu of cash:		
1984 final dividend	312,904	0.7
1985 interim dividend	143,324	0.3

(Notes continued on next page.)

23 Share options

In pursuance of the 1981 savings-related share option scheme, the directors granted options on 20 May 1985 over 890,587 ordinary shares at 230p per share normally exercisable in the period from July 1990 to January 1991.

In pursuance of the 1984 executive share option scheme, the directors granted options on 26 March 1985 over 119,000 ordinary shares at 240p per share exercisable in the period from March 1988 to March 1995.

At 31 December share options outstanding were as follows:

	Year of issue	Subscription prices	Normally exercisable in periods to	Number of shares 1985	Number of shares 1984
1974 Employees' share option scheme	1977	109.21p	—	—	13,524
	1978	116.01p	January 1986	50,411	103,222
	1979	116.01p	January 1987	75,097	83,159
	1980	128.14p	January 1988	249,808	360,538
1981 Savings-related share option scheme	1981	215p	July 1987	2,358,870	2,584,074
	1982	300p	January 1988	226,200	258,440
	1983	210p	January 1989	676,211	761,039
	1984	240p	January 1990	293,330	338,623
	1985	230p	January 1991	865,981	—
1984 Executive share option scheme	1984	207p	September 1994	2,765,000	2,826,000
	1985	240p	March 1995	119,000	—
				7,679,908	7,328,619

24 Reserves

(a) BICC Group

	Share premium account	Revaluation: Tangible fixed assets	Revaluation: Investments in related companies	Debenture sinking fund	Other	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 1985	93.9	10.8	16.8	9.8	12.8	86.2	230.3
Premium on ordinary shares issued, net of expenses	.9	—	—	—	—	—	.9
Retained profit for the year	—	(.1)	3.9	—	.4	2.6	6.8
Exchange adjustments	—	(2.3)	(5.9)	—	(2.3)	(48.3)	(58.8)
Revaluations	—	1.9	.3	—	—	—	2.2
Transfers	—	—	—	1.1	—	(1.1)	—
Goodwill on acquisitions written off	—	—	—	—	—	(.4)	(.4)
At 31 December 1985	94.8	10.3	15.1	10.9	10.9	39.0	181.0
		25.4		21.8			

24 Reserves (*continued*)

(b) BICC plc	Share premium account	Revaluation of tangible fixed assets	Debenture sinking fund	Other	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 1 January 1985	93.9	1.6	9.8	14.2	13.6	133.1
Exchange adjustments	—	—	—	(10.5)	—	(10.5)
Premium on ordinary shares issued, net of expenses	.9	—	—	—	—	.9
Retained loss for the year	—	—	—	—	(3.4)	(3.4)
Transfers	—	—	1.1	—	(1.1)	—
At 31 December 1985	94.8	1.6	10.9	3.7	9.1	120.1
			14.6			

The profit and loss account of BICC plc is wholly distributable.

25 Provisions for liabilities and charges

Movements in provisions were as follows:

BICC Group	Deferred taxation UK £m	Deferred taxation Overseas £m	Advance corporation tax £m	Other provisions £m	Total £m
At 1 January 1985	14.3	3.8	(9.5)	44.5	53.1
Subsidiaries sold	—	—	—	(.4)	(.4)
Profit and loss account:					
Profit before interest	(.9)	(1.2)	4.8	1.7	4.4
Extraordinary items	(1.8)	—	2.2	13.2	13.6
Exchange adjustments	—	(1.1)	—	(2.0)	(3.1)
Utilised	—	—	2.9	(17.8)	(14.9)
Transfer to provisions against investments	—	—	—	(.7)	(.7)
Provided on dividends in these accounts	—	—	(9.0)	—	(9.0)
At 31 December 1985	11.6	1.5	(8.6)	38.5	43.0

BICC plc	UK deferred taxation £m	Advance corporation tax £m	Other provisions £m	Total £m
At 1 January 1985	.1	(9.5)	25.1	15.7
Profit and loss account	(.1)	7.0	8.4	15.3
Utilised	—	—	(12.5)	(12.5)
Provided on dividends in these accounts	—	(9.0)	—	(9.0)
Surrendered to subsidiary companies	—	2.9	—	2.9
At 31 December 1985	—	(8.6)	21.0	12.4

25 Provisions for liabilities and charges (*continued*)

The provision for UK deferred taxation is based on a corporation tax rate of 40% (1984: 45%). The effect of the lower future rates of UK corporation tax is insignificant.

Advance corporation tax of £60.5m (1984: £53.5m) has been written off in BICC Group to date.

The BICC Group provision for deferred taxation comprises:

	1985		1984	
	UK £m	Overseas £m	UK £m	Overseas £m
Excess of taxation allowances over depreciation	27.3	5.2	32.0	8.1
Unrelieved trading losses	(3.8)	(4.1)	(4.4)	(1.4)
Other, including short-term timing differences	(11.9)	.4	(13.3)	(2.9)
	11.6	1.5	14.3	3.8

26 Minority interests

Minority interests include £40.4m (1984: nil) in respect of redeemable preference capital issued during 1985 by a subsidiary with coupons of between 10.3% and 11.5%. £17.8m is redeemable in 1986 and the balance between 1987 and 1990.

27 Group source and application of funds

Adjustments have been made to the movement between the opening and closing balance sheets for exchange adjustments on the opening balance sheet and for the acquisition and sale of subsidiary and related companies as follows:

	Exchange adjustments		Acquisition and sale of companies	
	1985 £m	1984 £m	1985 £m	1984 £m
Tangible fixed assets	45.3	(16.4)	13.8	11.6
Working capital—(increase)/ decrease:				
Stocks	53.9	(18.5)	14.8	13.3
Debtors	40.8	(14.1)	10.6	8.9
Creditors and provisions	(39.7)	10.9	(7.9)	(8.7)
Taxation	(8.6)	1.9	(2.4)	(1.8)
Goodwill on acquisition of companies	—	—	(.4)	(3.1)
Minority interests sold	—	—	(7.2)	(5.7)
Investments and loans to related companies	6.5	1.6	(5.8)	(10.6)
Extraordinary items	(.8)	—	.9	5.3

Exchange adjustments on capital, reserves and minority interests	(90.2)	29.2	—	—
Exchange adjustments on opening net borrowings	7.2	(5.4)	16.4	9.2

28 Financial commitments

Operating lease rentals payable in 1986 (1985) comprise:

	1985		1984	
	Land and buildings £m	Other tangible fixed assets £m	Land and buildings £m	Other tangible fixed assets £m
BICC Group				
Leases terminating within one year	.7	.4	2.1	.5
Leases terminating between one and five years	3.9	2.6	3.2	1.4
Leases terminating in five years or more	3.4	—	4.1	—
	8.0	3.0	9.4	1.9
BICC plc				
Leases terminating between one and five years	—	.4	—	.2
Leases terminating in five years or more	1.3	—	.9	—
	1.3	.4	.9	.2

29 Capital commitments

Expenditure authorised which has not been provided for in the accounts amounts to:

	BICC Group		BICC plc	
	1985 £m	1984 £m	1985 £m	1984 £m
Tangible fixed assets:				
Contracts placed	12.0	23.0	5.4	9.5
Contracts authorised but not yet placed	13.4	23.7	3.2	5.7
Investments authorised but not committed	10.5	1.0	.2	1.0

30 Contingent liabilities

Contingent liabilities are not expected to give rise to any material loss. They include:

	BICC Group		BICC plc	
	1985	1984	1985	1984
	£m	£m	£m	£m
Discounted bills and notes receivable	14.9	13.0	1.0	2.4
Uncalled capital on investments	.2	.2	2.5	2.4
Loan guarantees	8.4	4.6	20.5	22.2

BICC plc and certain subsidiary companies have, in the normal course of business, entered into counter-indemnities in respect of bonds relating to the Group's own contracts.

BICC plc has guaranteed the property lease commitments amounting to £0.8m per annum until 2010 of a subsidiary sold during 1985.

There is an option, exercisable by a subsidiary company in August 1990, requiring BICC plc to purchase that subsidiary's investment in a fellow subsidiary for an amount equivalent to £40.4m (1984: nil).

31 Pensions

The Group, through trustees, operates a number of pension schemes for certain eligible employees; in addition the Group contributes to a number of labour union operated schemes. Group operated pension schemes are either insured or actuarially funded. Except for special contributions of £5.8m (1984: £11.3m) for BICC Group and £2.4m (1984: £5.6m) for BICC plc in respect of employees' past service which are being paid over periods varying from one to twenty-five years, the latest actuarial valuations indicate that there are sufficient assets in the funds to secure the benefits accrued to the respective valuation dates.

Following a review of the funding of the main UK pension scheme at 5 April 1985 which disclosed a surplus, it has been agreed that, in addition to improving benefits, company contributions should cease during 1986 and 1987. The impact on Group profits before taxation will be of the order of £10m in each of these years.

BICC Group balance sheet includes a provision of £0.4m (1984: £0.7m) in respect of unfunded pension commitments of certain overseas subsidiary companies. There are also commitments, for which no provision has been made, to pay pensions to past directors of £23,236 per annum (1984: £22,115 per annum).

It is the policy of the trustees of the Group's principal pension funds not to invest in securities of, or lend money to, BICC plc or its subsidiary or related companies.

32 Directors' interests in share and loan capital

The interests of the directors in the share and loan capital of BICC plc are:

	At 31 December 1985		At 1 January 1985	
	Holdings	Options	Holdings	Options
Sir William Barlow	8,342	208,000	5,000	208,000
R. Bexon (appointed 11 June 1985)	400	—	—	—
R. A. Biggam (appointed 1 February 1986)	—	—	—	—
D. H. Booth	232 £500*	121,421	232 £500*	119,813
E. Clark (appointed 1 December 1985)	1,000	—	1,000	—
R. Clark	1,000	120,000	1,000	120,000
D. A. Holland	5,670	134,813	5,587	134,813
HRH The Duke of Kent	1,166	—	1,166	—
Dr G. F. Moore	5,548 £500*	88,300	7,548 £500*	88,300
R. F. Morgan	1,045	108,000	1,000	—
C. R. Reeves	1,045	—	1,000	—
S. Wainwright	1,045	—	1,000	—
The Viscount Weir	1,166	—	1,166	—
H. C. Woolley	2,899	122,421	2,899	120,813

All interests at the dates shown (or dates of appointment if later) are beneficial and are in respect of numbers of ordinary shares of BICC plc, except where followed by an asterisk, denoting first cumulative preference stock.

No director had any interest in subsidiary companies at the relevant dates.

There were no changes in the above interests between 1 January 1986 and 26 March 1986.

PRINCIPAL SUBSIDIARY COMPANIES
(at 31 December 1985)

	Country of incorporation or registration (Note v)	Equity holding (Note v) %
Balfour Beatty Ltd*		
Balfour Beatty Construction Ltd		
Balfour Beatty Construction (Scotland) Ltd	Scotland	
Stent Foundations Ltd		
Stewart McGlashen Ltd	Scotland	
Whitley Moran & Co. Ltd		
Balfour Beatty Construction International Ltd		
Balfour Beatty Developments Ltd		
Balfour Beatty Engineering Ltd		
Engineering & Power Development Consultants Ltd		
Raynesway Plant Ltd		
Balfour Beatty Power Construction Ltd		
Balfour Beatty Power Construction (Australia) Pty Ltd	Australia	
EMJ Engineers Inc	USA	
Painter Brothers Ltd		
Balfour Kilpatrick Ltd	Scotland	
Kilpatrick Green Pty Ltd	Australia	
Gooder Electrical Ltd	New Zealand	
BICC Cables Ltd*		
Metals Group		
BICC Metals Ltd*		
Prescot Rod Rollers Ltd*		80.0
Prescot Aluminium Co. Ltd*		80.0
BICC Connollys Ltd*		
Elsy & Gibbons Ltd*		
Power and Construction Group		
BICC Pyrotenax Ltd*		
BICC Elastomeric Cables Ltd*		

	Country of incorporation or registration (Note v)	Equity holding (Note v) %
BICC Flexible Cables Ltd*		
BICC Wiring Cables Ltd*		
Cablexpress Services Ltd*	Scotland	
BICC Power Cables Ltd*		
BICC Supertension Cables Ltd*		
Communications Group		
BICC Electronic Cables Ltd*		
BICC Telecommunication Cables Ltd*		
Marketing		
BICC (Far East) Pte Ltd	Singapore	
BICC Middle East Ltd	United Arab Emirates	
BICC International Ltd*		
Associated British Cables Ltd†	New Zealand	63.5
BICC (Caribbean) Ltd	Jamaica	95.0
C.E.L.—C.A.T. Fábrica Nacional de Condutores Eléctricos S.A.R.L.	Portugal	70.3
Central African Cables Ltd†	Zimbabwe	75.4
Metal Manufactures Ltd	Australia	64.0
Austral Standard Cables Pty Ltd#	Australia	60.0
Cable Makers Australia Pty Ltd#	Australia	63.2
Pyrotenax Australia Pty Ltd#	Australia	
Phillips Cables Ltd†	Canada	81.2
Pyrotenax of Canada Ltd	Canada	
BICC Technologies Ltd*		
BICC Electrical		
BICC Dorman Smith Ltd*		
BICC Components Ltd*		
BICC Vantrunk Ltd*		
BICC Electronics		
BICC-Vero Electronics Ltd*		
BICC-Vero Electronic Packaging Ltd		
BICC-Vero Circuit Boards Ltd		
BICC-Vero Distribution Ltd		

	Country of incorporation or registration (Note v)	Equity holding (Note v) %
BICC-Vero Connectors Ltd		
BICC-Vero Electronics GmbH	West Germany	99.1
Transmitton Ltd*		
BICC-Citec Ltd*		
Temco Ltd*		
BICC Data Networks Ltd*		
Sealectro Corporation	USA	
Sealectro Ltd*		
Investment holding companies		
BICC Australia Ltd	Australia	
BICC Finance B.V.*	Netherlands	
BICC Investments & Co. (Note vi)		
BICC Overseas Investments Ltd*		
BICC USA Inc.	USA	

Notes
i) Subsidiary companies whose results did not, in the opinion of the directors, principally affect the profit or the assets of the Group are not shown.
ii) * indicates held directly by BICC plc.
iii) † indicates that the equity capital is listed on an overseas stock exchange.
iv) # indicates that the equity capital is held by Metal Manufactures Ltd.
v) Unless otherwise stated 100% of the equity capital is owned and companies are registered in England. The principal operations of each company are conducted in their country of incorporation.
vi) BICC plc holds 75% and BICC Australia Ltd 25% of the equity capital of BICC Investments & Co.

PRINCIPAL RELATED COMPANIES
(at 31 December 1985)

	Country of incorporation or registration (Note ii)	Group equity holding %	Total issued share capital £m
Balfour Beatty			
P.T. Balfour Beatty			
Sakti Indonesia	Indonesia	50.0	3.6

	Country of incorporation or registration (Note ii)	Group equity holding %	Total issued share capital £m
Dicomsa Kilpatrick de Mexico S.A. de C.V. (30 November)	Mexico	49.0	.8
Dutco Balfour Beatty (Private) Ltd	United Arab Emirates	49.0	—
JKN Construction Co. Ltd	Nigeria	40.0	1.5
London and Metropolitan Estates (Holdings) Ltd	England	50.0	—
Saudi Industrial Contracting Co. Ltd	Saudi Arabia	50.0	.2
Zubair Kilpatrick LLC	Oman	49.0	.6
BICC Cables			
Thomas Bolton and Johnson Ltd (Note iii)	England	50.0	4.0
Optical Fibres, a partnership with Corning Ltd		50.0	
BICC International			
African Cables Ltd (31 July)	South Africa	35.0	1.6
ATC (Pty) Ltd	South Africa	30.2	.1
Dubai Cable Company (Private) Ltd	United Arab Emirates	40.0	7.5
Pakistan Cables Ltd	Pakistan	49.7	1.2
Power Cables Malaysia Sdn Berhad (Note iii)	Malaysia	40.0	2.3
Vinidex Tubemakers Pty Ltd #	Australia	50.0	1.4
Winding Wires (Pty) Ltd (31 March)	South Africa	50.0	.1

Notes

i) Where a date is shown, the Group accounts include the results of the related company to that date, translated at the average rate of exchange for the year ended 31 December.

ii) The principal operations of each company are conducted in their country of incorporation.

iii) The Group also holds 50% of the £10.8m loan capital of Thomas Bolton and Johnson Ltd and 40% of the £1.1m loan capital of Power Cables Malaysia Sdn Berhad. None of the other companies has any loan capital outstanding at its accounting date.

iv) # indicates that the equity capital is held by Metal Manufactures Ltd.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Foreign Auditing Standards

General Questions	Answers	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, and so forth?	Yes	1. Auditing Standard 102 and Companies Act 1985
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	No	

2. A. The United States has ten generally accepted auditing standards, including general standards, standards of field work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards which have been published in the AICPA's *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in the United Kingdom?	Yes	
B. If so, are they published?	Yes	2B. Annual "Auditing and Reporting" from the Institute of Chartered Accountants in England and Wales
C. If auditing standards exist in your country, are they similar to U.S. standards?	Yes	
D. If not, what are they?	N/A	
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, and so forth)?	The profession	3. Auditing standards and guidelines are approved by the ICAEW, ICAS, ICAI, and ACA (see paragraph 15 of text for definitions of acronyms).

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
Parenthetic AU numbers refer to sections in the AICPA's *Codification of Statements on Auditing Standards,* unless otherwise noted.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU sec. 331)	Yes. ICAEW Statement on Auditing U7	√			
5. Do auditors observe inventory counts? (AU sec. 331)	Yes. Auditing Guideline 405	√			
6. Do auditors receive written representations from management? (AU sec. 333)	Yes. Auditing Guideline 404	√			
7. Do auditors receive written representations from management's legal counsel? (AU sec. 337)	Yes. ICAEW Statement on Auditing U7	√			
8. A. Do auditors prepare and maintain working papers? (AU sec. 339)	Yes. Auditing Guideline 201	√			
B. If so, do they include a written audit program outlining procedures to be performed? (AU sec. 339)	Yes. Auditing Guideline 201	√			

9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU sec. 320)	Yes. Auditing Guideline 201	√	
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU sec. 323)		√	10A, B. Both are soon to be required by professional pronouncement (auditing guideline exposure draft, *Reports to Management*).
B. If so, is the communication documented? (AU sec. 323)		√	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)		√	11. Forthcoming Audit Brief on sampling
12. Is the auditor responsible for planning the examination to search for errors or irregularities that would have a material effect on the financial statements? (AU sec. 327)		√	12. Soon to be required by a professional pronouncement (auditing guideline exposure draft, *Fraud and other irregularities*). Additionally, paragraph 10 of the *Explanatory Forward* to auditing standards and guidelines states the auditor should plan the audit so that he or she has a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities or fraud.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU sec. 334)	No	√			13A. ICAEW draft technical release, *Related Party Transactions*.
B. If so, list the procedures.	N/A				B. Similar to the U.S.
14. Does the auditor consider the adequacy of cut-off procedures to insure that movements into and out of inventories are properly identified in the accounting records? (AU sec. 313)	Yes. Auditing Guideline 405	√			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU sec. 560)	Yes. Auditing Guideline 402	√			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU sec. 560)	Yes. Auditing Guideline 402	√			
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by	No		√		16. The concept of joint auditors is recognized in the United Kingdom and provided for in the Companies Act. However, joint auditors are not required; it is a matter for the shareholders to determine.

the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in the U.K.?				
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU sec. 543)				
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. ICAEW Statement on Auditing U21	√		
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No		√	
18. A. Is there a standard form of auditor's report? (AU sec. 509)	Yes. Auditing Standard 102	√		
B. If so, please supply a copy in English.				18B. See Auditing Standard 102, Auditing Guideline 239, and appendix C.
C. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 509)				18C. See paragraphs 40 through 43 of text.
19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU sec. 420)	No		√	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. SSAP 2, Auditing Standard 103	√			
20. A. Is the auditor's report dated as of the last day of field work? (AU sec. 530)	No		√		
B. If not, what date is used?					20B. On or after the date the financial statements are approved by the company's directors.
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (Code of Professional Ethics, rule 101)	Yes. ICAEW Professional Ethics				
22. Please list any standards for the United Kingdom for which there are no corresponding U.S. standards.					22. The standards are as follows: ● Standards for certain specific industries unique to the United Kingdom (for example, Auditing Guidelines on Trade Unions and Employers' Associations, Housing Associations)

- Auditing Guideline 401, *Bank Reports for Audit Purposes*
- ICAEW Statement U24, *Guidance for Auditors on the Implications of Goods Sold Subject to Reservation of Title*
- ICAEW Statement 922, *Auditors' Relationships with Actuaries Concerning Actuarial Valuations of Long-Term Business Funds of Insurance Companies*
- Auditing Guideline 412, *Prospectuses and the Reporting Accountant*

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Foreign Principles

General Questions	Answers	Comments
1. Are there generally accepted accounting principles in the United Kingdom? If so, are they published?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, and so forth)?	Parliament (via the Department of Trade and Industry); the accountancy profession (via the Accounting Standards Committee); The Stock Exchange (for disclosures only)	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes. CA 1985, 4 schedule	√			

4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	No		√	4. The Companies Act permits, but does not require, this treatment. Property companies customarily adopt this treatment, but it is less widespread among other companies.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. CA 1985	√		5A. Usually restricted to tangible fixed assets.
B. If so, define the basis.				5B. The Act prescribes various bases. (See paragraph 62 of text.)
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	No	√		
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. CA 1985, 4 schedule; SSAP 2	√		

Notes:

Parenthetic references are to sections in the *FASB Current Text,* unless otherwise noted.
CA 1985 refers to the Companies Act 1985.
SSAP refers to Statement of Standard Accounting Practice.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. CA 1985, 4 schedule; SSAP 2	√			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	No	√			9A, B. See paragraphs 54 through 56 of text.
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	No				
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. CA 1985, section 229; SSAP 14	√			
B. If so, list them.					10B. See paragraphs 55 through 56 of text.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, as long as the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. SSAP 1	√	√		11. Predominant practice over joint ventures and investments over which the investor can exercise significant influence. Minority practice for unconsolidated subsidiaries.

12. Are there two methods of accounting for business combinations—the pooling of interests method and the purchase method? (B50)	Yes. SSAP 23			12. See paragraphs 71 through 72 of text.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. CA 1985, 4 schedule; SSAP 23	√		
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50)	Yes. CA 1985, SS 131-134; SSAP 23			
B. If so, list the criteria.				14B. See paragraphs 71 through 72 of text.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	No	√		15A, B. The Act permits goodwill to be written off immediately. SSAP 22 suggests it should be written off immediately. Amortization is a second preference, even though goodwill has typically been accounted for as an asset in the past.
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. CA 1985, 4 schedule; SSAP 22	√		
16. Are the following disclosures made for related party transactions: (R36)				
a. The nature of the relationship?	Yes. CA 1985, 4 schedule; SSAP 1, The Stock Exchange	√ A,D,H,S	√ SS	Code A = Associates D = Directors F = Fellow subsidiaries H = Holding company N = Nondirector officers S = Subsidiaries SS = Substantial shareholders
b. A description of the transactions for the periods presented?	Yes. CA 1985, 6 schedule	√ D		See paragraph 101 of text.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
c. The amounts of the transactions for the periods presented?	Yes. CA 1985, 6 schedule; The Stock Exchange	√ D	√ SS		
d. The amounts due to or from related parties at the balance sheet date?	Yes. CA 1985, 4 schedule, 6 schedule	√ A,D,F,H,N,S			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. CA 1985, 4 schedule; SSAP 18	√			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. CA 1985, 4 schedule; SSAP 18	√			
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements, even though the possibility of loss may be remote? (In the United States, guarantees are usually disclosed as loss contingencies, even if the possibility of loss is remote.) (C59)	Yes. CA 1985, 4 schedule	√			

20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)					
a. Sales to outsiders and intersegment sales?	Yes. CA 1985, 4 schedule	√			
b. Operating profit or loss?	Yes. The Stock Exchange		√		20*b*. The Act also requires disclosure of the amount of profit before tax attributable to classes of business that, in the directors' opinion, differ substantially.
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No			√	
d. Capital expenditures?	No			√	
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No			√	
f. Effect of a change in accounting principle?	No			√	
21. A. Are there any requirements to disclose the effects of inflation? (C27)	No			√	
B. If so, list the disclosures required.					21B. The Act requires disclosure of material differences between replacement cost at the balance sheet date (or latest purchase date) and the carrying amounts of inventory.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. CA 1985, 4 schedule	√			22. Long-term debtors (that is, not due within a year) are classified as current assets on the balance sheet, but the

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					long-term portion must be disclosed either on the face of the balance sheet or in the notes.
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	No			√	
B. If not, how are noncurrent assets defined?					23B. The Act defines fixed assets as those intended for use on a continuing basis. Any other assets are current assets.
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. CA 1985, 4 schedule	√			
B. If so, what is the basis (for example, percentage of sales, aging of receivables, and so forth) for calculating the allowance?					24B. Various bases are used.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No			√	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. CA 1985, 4 schedule; SSAP 9	√			
B. If not, how is inventory stated?					26B. Under the Act, inventory may be stated at current cost, and such is the minority practice.
C. Is the basis disclosed?	Yes. CA 1985, 4 schedule; SSAP 9	√			

27. Does cost for inventory purposes include: (I78)				
a. Materials?	Yes. CA 1985, 4 schedule; SSAP 9	√		
b. Direct labor?	Yes. CA 1985, 4 schedule; SSAP 9	√		
c. Factory overhead?	Yes. CA 1985, 4 schedule; SSAP 9	√		
d. If the answer to *c.* is yes, is an allocable share of all factory overhead included?	Yes. SSAP 9	√		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				
a. First-in, first-out (FIFO)?	Yes. CA 1985, 4 schedule; SSAP 9	√		28A, B. Neither the tax authorities nor SSAP 9 accept LIFO, although the Act permits its use.
b. Last-in, first-out (LIFO)?	Yes. CA 1985, 4 schedule		√	
c. Average cost?	Yes. CA 1985, 4 schedule; SSAP 9	√		
B. Are the same methods permitted for tax purposes?	No			
29. Is the inventory costing method used disclosed? (I78)	Yes. CA 1985, 4 schedule; SSAP 9	√		
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. CA 1985, 4 schedule; SSAP 12	√		30A. According to SSAP 19, investment properties are not depreciated.
B. If so, is an accumulated depreciation account used?	Yes. CA 1985, 4 schedule	√		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
31. Are disclosures made of: (D40)					
a. Depreciation expense for the period?	Yes. CA 1985, 4 schedule; SSAP 12	√			
b. Balances of major classes of depreciable assets?	Yes. CA 1985, 4 schedule; SSAP 12	√			
c. The methods used to compute depreciation for the major asset classes?	Yes. CA 1985, 4 schedule; SSAP 12	√			
d. Accumulated depreciation, either by major class of assets or in total?	Yes. CA 1985, 4 schedule; SSAP 12	√			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. SSAP 21				32A, B. See paragraphs 79 through 86 of text.
B. If so, list the criteria and disclosure requirements.					
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. SSAP 21				33A, B. See paragraphs 79 through 86 of text.
B. If so, list the criteria, type of lease, and disclosure requirements.	CA 1985, 4 schedule; SSAP 21				
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. CA 1985, 4 schedule	√			

35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No			
B. If not, how are noncurrent liabilities defined?			√	35B. The Act distinguishes liabilities between those falling due within one year and those due in more than one year.
36. For notes payable, is disclosure made of: (C59 and Statement of Financial Accounting Concepts No. 5)				
a. Interest rates?	Yes. CA 1985, 4 schedule; The Stock Exchange; SSAP 21	√ For debt with maturities over five years (applies to *a* and *b*)	√	36. The analysis of creditors required by the Act would provide some information about maturity dates. The repayment and interest terms for an item maturing wholly or in part after five years must be disclosed. The Act also requires disclosure of secured liabilities and the nature (but not the identity) of the security given. Separate disclosure of bills of exchange payable is required.
b. Maturities?			√	
c. Assets pledged as collateral?			√	
d. Covenants to reduce debt?			√	
e. Minimum working capital requirements?			√	
f. Dividend restrictions?			√	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (CO4)	Yes. SSAP 9	√		37A, B. SSAP 9 prefers the use of the percentage-of-completion method if the outcome of the contract can be assessed with reasonable certainty. If not, the completed contract method should be used.
B. If so, what are the criteria for determining the method to be used?				

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
38. A. Are research costs charged to expense when incurred? (R50)	Yes. CA 1985, 4 schedule; SSAP 13	√			
B. Are such costs disclosed?	Yes. CA 1985, 7 schedule		√		38B. The Act requires the directors' report to provide an indication of research and development activities. Financial details are not specifically required.
39. A. Are development costs charged to expense when incurred? (R50)	Yes. CA 1985, 4 schedule; SSAP 13	√			
B. Are such costs disclosed?	Yes. CA 1985, 4 schedule; SSAP 13		√		39B. See comments to question 38 and paragraphs 76 through 78 in text.
40. A. In the U.S. events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist? (I17)	No				
B. If not, what are the criteria?					40B. SSAP 6 defines extraordinary items as those deriving from events or transactions outside the normal activities of the company (and

			which are both material and not expected to recur frequently).
41. Are material events or transactions, that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)	Yes. SSAP 6	√	41. Items of abnormal size and incidence derived from ordinary activities should be disclosed as "exceptional items."
42. A. Are disclosures required for—			
(1) Extraordinary items? (I17)	Yes. CA 1985, 4 schedule; SSAP 6	√	
(2) Material events or transactions not classified as extraordinary items? (I22)	Yes. CA 1985, 4 schedule; SSAP 6	√	
(3) Disposal of a segment of a business? (I13)	Yes. SSAP 6	√	
B. Indicate the financial statement presentation of these items.			42B. *Presentation for item:* (1) Face of profit and loss account (after ordinary activities after tax) explanation in notes (2) Notes, or possible face of profit and loss account (before profit on ordinary activities before tax) (3) Treated as an extraordinary item
43. A. Are pension costs provided for covered employees over the term of employment? (P15)	No	√	
B. If so, do they include charges for costs assigned under the	No	√	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
actuarial method used to years prior to the plan's inception?					
44. A. Are specific disclosures required relating to pension plans? (P15)	Yes. CA 1985, 4; schedule; ED 39		√		
B. If so, list them.					44B. The Act requires particulars of provided and unprovided pension commitments but does not define these "particulars." See paragraphs 96 through 97 in text.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for differences (as opposed to permanent differences)? (I24)	Yes. SSAP 14	√			
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	No			√	
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?					45C. See paragraph 91 of text.
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	No			√	46A. See paragraph 91 of text.

B. If not, on what basis?			46B. On the basis of tax rates expected to be in force when the tax asset or liability materializes.
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. CA 1985, 4 schedule	√	
B. If so, list the requirements.			47B. See paragraph 90 of text.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)			48A. Permitted under U.K. tax law. Not addressed in accounting literature.
B. If so, are the tax effects of a loss carryback included in the period of loss?		√	48B. SSAP 15 states that deferred-tax assets arising from losses should only be recognized when expected to be recoverable without replacement by equivalent debit balances.
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I37)			49A, B. See comments to 48A and B.
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?		√	
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. SSAP 20	√	
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. SSAP 20	√	51. See paragraphs 103 through 108 of text.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
52. A. Are translation adjustments reported separately? (F60)	Yes. SSAP 20	√			
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	No		√		
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	CA 1985, 4 schedule	√			
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. SSAP 20	√			53A, B. See paragraphs 103 through 108 of text.
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No			√	
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	No			√	54. Not covered by SSAP 20.

55. What information is disclosed about foreign currency restrictions?			55. See paragraph 108 of text.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. CA 1985, 7 schedule; SSAP 17	√	56. The Act requires disclosure, in the Directors' Report of "important events" affecting the company occurring subsequent to year-end. SSAP 17 requires similar disclosures to those required in the United States.
57. Please list any standards for which there are no corresponding U.S. standards.			57. SSAP 4, SSAP 5, SSAP 8, SSAP 19. See appendix B for titles.

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