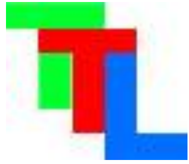

Accounting standards

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Income tax and corporation tax , and sometimes other taxes, are prepared from a set of accounts. These accounts must comply with accounting standards. So accounting standards can, in effect, be part of tax law. Unless tax law specifically requires a different treatment, figures produced in compliance with accounting standards are generally accepted by the tax authorities.

Accounting standards apply equally to non-trading entities such as charities, trade unions, clubs, local authorities and professional bodies. They also apply to sole traders, partnerships and to any person or entity that produces accouns.

Corporation tax and income tax computatons often start with the entry **profit per the accounts.** This profit is then adjusted in accordance with tax law to give the taxable profits.

The overriding requirement for all accounts is that they are **true and fair.** This requirement trumps every other provision of accounting standards.

This term was first used in UK company law in 1947 and was adopted by the European Union in 1978. It is now explicitly required for companies under Companies Act 2006 s393, but in reality was part of company law for many previous decades.

Accounts are subjective. The balance sheet will value buildings. The profit and loss account requires a business to estimate how long assets will last. These are matters of judgment which lead to approximations. A set of accounts is therefore more of a picture than a technical drawing. Different accountants can quite properly prepare accounts with different figures for the same business over the same period.

Sometimes accounting standards specifically allow for more than one accounting treatment. A business is entitled to choose which treatment to use. That treatment must be used consistently.

True means that the accounts are in accordance with the supporting financial records. **Fair** means that the picture they paint fairly represents the company's position.

HMRC has the power not to accept accounts if they are not true and fair, even though they have complied with accounting standards.

Current accounting standards are produced by two bodies. UK standards are, from 2004, produced by the **Financial Reporting Council** (FRC) which is also responsible for ensuring

compliance. This body is to be replaced by the more powerful Audit, Reporting and Governance Authority (ARGA).

International accounting standards are produced by the **International Accounting Standards Board** (IASB). This works closely with FRC.

Both bodies produce **exposure drafts (EDs)** of proposed standards so that users may comment before they become binding standards. EDs are also produced when a standard is to be amended.

From 2015, UK standards comprise Financial Reporting Standard **FRS 102** and associated FRSs. FRS 102 has 36 sections, each of which is a mini-standard. The family of standards is numbered from FRS 100 to FRS 105. All UK standards issued before 2015 are repealed.

From 2016, a small business may use FRS 102 section 1A which is less prescriptive. From the same year, a micro-entity may use FRS 105 instead. This is even less prescriptive.

A small business may wish not to use the less prescriptive standards. This may occur if the company believes it is about to become a bigger company or if it wishes to be taken over, or otherwise wishes its accounts to be comparable with big companies.

Any entity may choose not to use UK standards, but to use international standards instead. The IASB produces International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs), in addition to explanatory material. In most cases, UK and international standards will give the same answers, but there are some areas of significant differences such as for goodwill.

From 2005, all companies listed on the **Stock Exchange** must produce accounts that comply with international standards. However, this only applies to group accounts or consolidated accounts. Corporation tax is charged on the individual companies in the group, and those accounts may be prepared using UK standards.

There are other standards, laws and provisions that regulate how accounts are produced. **Listed companies** must comply with the rules of the UK Listing Authority.

There are **statements of recommended practice** (SORPs) produced by other bodies for specific areas such as universities and charities.

There are **auditing standards** that govern the work of the auditor, though smaller companies are not required to be audited.

We can ensure that your accounts comply with accounting standards.

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