

## SCHEDULE 1

### [Schedule 8 to the Companies (Northern Ireland) Order 1986] Form and Content of Accounts prepared by small Companies

## Part II

### Accounting Principles and Rules

#### Section A

#### Accounting principles

##### *Preliminary*

9. Subject to paragraph 15, the amounts to be included in respect of all items shown in a small company's accounts shall be determined in accordance with the principles set out in paragraphs 10 to 14.

##### *Accounting principles*

10. The company shall be presumed to be carrying on business as a going concern.

11. Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.

12. The amount of any item shall be determined on a prudent basis, and in particular—

- (a) only profits realised at the balance sheet date shall be included in the profit and loss account; and
- (b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of Article 241.

13. All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

14. In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately.

##### *Departure from the accounting principles*

15. If it appears to the directors of a small company that there are special reasons for departing from any of the principles stated above in preparing the company's accounts in respect of any financial year they may do so, but particulars of the departure, the reasons for it and its effect shall be given in a note to the accounts.

#### Section B

#### Historical Cost Accounting Rules

##### *Preliminary*

16. Subject to section C, the amounts to be included in respect of all items shown in a small company's accounts shall be determined in accordance with the rules set out in paragraphs 17 to 28.

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

## *Fixed assets*

### **General rules**

17. Subject to any provision of depreciation or diminution in value made in accordance with paragraph 18 or 19 or the amount to be included in respect of any fixed asset shall be its purchase price or production cost.

18. In the case of any fixed asset which has a limited useful economic life, the amount of—

- (a) its purchase price or production cost; or
- (b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its purchase price or production cost less that estimated residual value;

shall be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

19.—(1) Where a fixed asset investment of a description falling to be included under item B.III of either of the balance sheet formats set out in Part I has diminished in value provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(2) Provisions for diminution in value shall be made in respect of any fixed asset which has diminished in value if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it shall be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(3) Where the reasons for which any provision was made in accordance with sub-paragraph (1) or (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary; and any amounts written back in accordance with this sub-paragraph which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

### **Rules for determining particular fixed asset items**

20.—(1) Notwithstanding that an item in respect of “development costs” is included under “fixed assets” in the balance sheet formats set out in Part I, an amount may only be included in a small company's balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a small company's balance sheet in respect of development costs the following information shall be given in a note to the accounts—

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off; and
- (b) the reasons for capitalising the development costs in question.

21.—(1) The application of paragraphs 17 to 19 in relation to goodwill (if any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a small company shall be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen shall not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a small company is shown or included as an asset in the company's balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period shall be disclosed in a note to the accounts.

#### *Current assets*

22. Subject to paragraph 23, the amount to be included in respect of any current asset shall be its purchase price or production cost.

23.—(1) If the net realisable value of any current asset is lower than its purchase price or production cost the amount to be included in respect of that asset shall be the net realisable value.

(2) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (1) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

#### *Miscellaneous and supplementary provisions*

##### **Excess of money owed over value received as an asset item**

24.—(1) Where the amount repayable on any debt owed by a small company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

- (a) it shall be written off by reasonable amounts each year and must be completely written off before repayment of the debt; and
- (b) if the current amount is not shown as a separate item in the company's balance sheet it must be disclosed in a note to the accounts.

##### **Assets included at a fixed amount**

25.—(1) Subject to the following sub-paragraph, assets which fall to be included—

- (a) amongst the fixed assets of a small company under the item "tangible assets"; or
- (b) amongst the current assets of a small company under the item "raw materials and consumables";

may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced, where—

- (a) their overall value is not material to assessing the company's state of affairs; and
- (b) their quantity, value and composition are not subject to material variation.

##### **Determination of purchase price or production cost**

26.—(1) The purchase price of an asset shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The production costs of an asset shall be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the production of that asset.

(3) In addition, there may be included in the production cost of an asset—

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

- (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the production of that asset, but only to the extent that they relate to the period of production; and
- (b) interest on capital borrowed to finance the production of that asset, to the extent that it accrues in respect of the period of production;

provided, however, in a case within head (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

- (4) In the case of current assets distribution costs may not be included in production costs.

27.—(1) Subject to the qualification mentioned below, the purchase price or production cost of—

- (a) any assets which fall to be included under any item shown in a small company's balance sheet under the general item "stocks"; and
- (b) any assets which are fungible assets (including investments);

may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class. The method chosen must be one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

- (a) the method known as "first in, first out" (FIFO);
- (b) the method known as "last in, first out" (LIFO);
- (c) a weighted average price; and
- (d) any other method similar to any of the methods mentioned above.

(3) For the purposes of this paragraph, assets of any description shall be regarded as fungible if assets of that description are substantially indistinguishable one from another.

### **Substitution of original stated amount where price or cost unknown**

28. Where there is no need of the purchase price or production cost of any asset of a small company or of any price, expenses or costs relevant for determining its purchase price or production cost in accordance with paragraph 26, or any such record cannot be obtained without unreasonable expense or delay, its purchase price or production cost shall be taken for the purposes of paragraphs 17 to 23 to be the value ascribed to it in the earliest available record of its value made on or after its acquisition or production by the company.

## **Section C**

### **Alternative Accounting Rules**

#### *Preliminary*

29.—(1) The rules set out in section B are referred to in this Schedule as the historical cost accounting rules.

(2) These rules, with the omission of paragraphs 16, 21 and 25 to 28, are referred to in this Part as the depreciation rules; and references in this Schedule to the historical cost accounting rules do not include the depreciation rules as they apply by virtue of paragraph 32.

30. Subject to paragraphs 32 to 34, the amounts to be included in respect of assets of any description mentioned in paragraph 31 may be determined on any basis so mentioned.

#### *Alternative accounting rules*

31.—(1) Intangible fixed assets, other than goodwill, may be included at their current cost.

(2) Tangible fixed assets may be included at a market value determined as at the date of their last valuation or at their current cost.

(3) Investments of any description falling to be included under item B.III of either of the balance sheet formats set out in Part 1 may be included either—

(a) at a market value determined as at the date of their last valuation; or

(b) at a value determined on any basis which appears to the directors to be appropriate in the circumstances of the company;

but in the latter case particulars of the method of valuation adopted and of the reasons for adopting it shall be disclosed in a note to the accounts.

(4) Investments of any description falling to be included under item C.III of either of the balance sheet formats set out in Part 1 may be included at their current cost.

(5) Stocks may be included at their current cost.

#### *Application of the depreciation rules*

32.—(1) Where the value of any asset of a small company is determined on any basis mentioned in paragraph 31, that value shall be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its purchase price or production cost or any value previously so determined for that asset; and the depreciation rules shall apply accordingly in relation to any such asset with the substitution for any reference to its purchase price or production cost of a reference to the value most recently determined for that asset on any basis mentioned in paragraph 31.

(2) The amount of any provision for depreciation required in the case of any fixed asset by paragraph 18 or 19 as it applies by virtue of sub-paragraph (1) is referred to in this paragraph as the adjusted amount, and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.

(3) Where sub-paragraph (1) applies in the case of any fixed asset the amount of any provision for depreciation in respect of that asset—

(a) included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question; or

(b) taken into account in stating any item so shown which is required by note (11) of the notes on the profit and loss account formats set out in Part I to be stated after taking into account any necessary provision for depreciation or diminution in value of assets included under it;

may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

#### **Additional information to be provided in case of departure from historical cost accounting rules**

33.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a small company's accounts have been determined on any basis mentioned in paragraph 31.

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

(2) The items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in a note to the accounts.

(3) In the case of each balance sheet item affected (except stocks) either—

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item;

shall be shown separately in the balance sheet or in a note to the accounts.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined as there mentioned are references to—

- (a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to this historical cost accounting rules; and
- (b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.

#### *Revaluation reserve*

34.—(1) With respect to any determination of the value of an asset of a small company on any basis mentioned in paragraph 31, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) shall be credited or (as the case may be) debited to a separate reserve (“the revaluation reserve”).

(2) The amount of the revaluation reserve shall be shown in the company’s balance sheet under a separate sub-heading in the position given for the item “revaluation reserve” in Format 1 or 2 of the balance sheet formats set out in Part I, but need not be shown under that name.

(3) An amount may be transferred—

(a) from the revaluation reserve—

- (i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or
- (ii) on capitalisation,

(b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve;

and the revaluation reserve shall be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In sub-paragraph (3)(a)(ii) “capitalisation”, in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve shall not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve shall be disclosed in a note to the accounts.