Abstract

Purpose – The unique characteristics of property are being recognised by those who create accounting standards. The purpose of this paper is to discuss the process by which standards are created and the opportunities for the involvement of property professionals, owners and users within the standard-setting regime. In particular, the paper seeks to draw attention to the shift towards International Accounting Standards.

Design/methodology/approach – The paper is an explanation and discussion of the UK standard-setting regime.

Findings – The paper explains the UK standard-setting regime, introducing the shift towards International Accounting Standards.

Research limitations/implications – The work explains the ideologies and principles forming the theoretical foundations of the conceptual framework of UK accounting. Specific issues are not discussed, and are the subject of further work by the authors.

Practical implications – It is imperative for the surveying profession and wider property owners to be involved with the creation of accounting standards in order to ensure that property issues are reflected within them. This paper establishes the basic framework to assist them to do this.

Originality/value – Property professionals have traditionally tended to have been overlooked or ignored the consultation processes to establish new accounting standards. The paper establishes a platform to encourage them to become more involved.

Keywords Accounting standards, International accounting, Financial reporting, United Kingdom

Paper type General review

Introduction

The purpose of this paper is to explain who prepares accounts, the objectives behind the preparation and publication of financial statements, why they take the form that they do, the philosophical principals behind the numbers and an analysis of what is termed the conceptual framework of accounting. This might not appear to be central to the field of property management, but as from January 2005 all listed European Union (EU) companies have to prepare their consolidated accounts using International Accounting Standards. This impinges upon the technical expertise of all who are involved in the management of property. As we have explained previously (Eccles and Holt, 2001) it is important for the surveying profession to involve itself with the creation of these standards, in order to ensure that property issues are reflected within them. In order to do this, it is imperative to understand who is responsible for the creation of these and the process by which the rules for their creation are developed.
Balance sheets, profit and loss accounts and corporate reports do not simply spring into existence. They are created according to agreed rules and regulations. It is simply not possible to truly understand accounts without understanding the context of the accounting world, its thoughts and the pressures brought to bear upon it by governments and the world of business (amongst others). This paper seeks to explain this process, who is involved, why and whether property professionals (and their interests) are fairly represented. The question, then, that must be first asked is who is qualified, competent and allowed to prepare accounts?

**Accountants**

Firstly, and misleadingly, it can be said that accountants produce accounts. Not only is this not necessarily true (as will be shown, the creation of the accounting system is a complex and political process), but in itself it is not particularly useful. Legally, anyone in the UK could call themselves “an accountant”, and there are currently six established professional associations. For our purposes, the chartered accountant and the chartered management accountant are of most relevance. To become a Chartered Accountant, one must undergo lengthy and rigorous training, and must pass examinations to qualify for membership. Like other professionals, they are required to maintain high standards of professional conduct and competence supervised by the Institute of Chartered Accountants in England & Wales (ICAEW). The range of activities carried out by Chartered Accountants has expanded over the decades to encompass auditing, financial reporting, taxation, personal finance, corporate finance, financial management and information technology. Chartered Accountants are thus members of ICAEW who work in the public interest as set out in their original Royal Charter.

Chartered management accountants are members of the Chartered Institute of Management Accountants (CIMA). They are trained in key principles of business management and are experts in controlling, forecasting and communicating financial information in a form suitable for strategic management and decision-making purposes. Their skills are aimed directly at industry and commerce and they are employed in business rather than in the private accountancy practices frequented by Chartered Accountants.

The status of accountants is recognised in UK legislation in The Companies Act 1985 and the Local Government Finance Act 1988, and in the European Community Directive “Mutual Recognition of Professional Qualifications” (89/48/EEC). It is not relevant here to discuss the principle of “profession” within accounting, since the sociology of the professions is a contentious and large field. However, it is necessary to recognise these two classes of accountants involved with the creation, use and evolution of accounting standards. Property professionals seeking to involve themselves with the conceptual framework and discourse upon accounting conventions must recognise that, in doing so, they are engaged within a technical body of knowledge traditionally regarded as a preserve of other qualified professionals and over which they claim jurisdiction.

**The evolution of the UK financial reporting framework**

Prior to 1970, there were relatively few financial reporting requirements for companies, and although The Companies Act 1947 specified a minimum level of accounting...
disclosure, it contained little direction on the valuation of assets and liabilities. Since corporate legislation was deficient in its accounting requirements, the accounting professions were left to supply direction. Whilst the UK accounting profession, via the Institute of Chartered Accountants in England & Wales (ICAEW), had issued a series of non-mandatory accounting recommendations for its members, many professional accountants chose to apply different methods for each of their client companies. Such a regulatory framework was quite obviously unsustainable, and during the late 1960s a number of highly publicised accounting scandals led to public calls for increased regulation of financial statements. Whether or not such regulation should be based on government regulation was hotly debated, but such talk encouraged the UK accountancy profession into introducing a number of voluntary regulatory reforms.

In 1976, in a continued effort to reform professional accounting practice, the Accounting Standards Committee (ASC) was set up. This voluntary part-time entity was the joint committee of the six accountancy bodies[1] that now comprise the Consultative Committee of Accountancy Bodies (CCAB). The objectives of the ASC were “to define accounting concepts, to narrow differences of financial accounting and reporting treatment, and to codify generally accepted best practice in the public interest”. In order to achieve these objectives, the ASC continually reviewed accounting practice and proposed statements of accounting practice. The ASC’s regulatory framework appeared to function effectively for a number of years, and led to the issuance of 25 standard statements of accounting practice (SSAPs) and 55 exposure drafts that did much to “tighten up” UK accounting practices.

Despite the apparent progress in professional self-regulation of accounting, the ASC faced increasing demands, as the complexities of accounting issues and requirements for more sophisticated levels of financial reporting mounted. By the early 1980s, the ASC was facing general criticism for its failure to respond quickly to urgent issues. Consequently, in 1987, the CCAB appointed a Review Committee, under the chairman of Sir Ronald Dearing (now Lord Dearing), to review and make recommendations on the standard-setting process. The committee’s findings were published in 1988 in a report commonly referred to as the “Dearing Report”. The Dearing Report included three key recommendations:

(1) The lack of an overriding conceptual framework was seen as a handicap to those setting accounting standards as well as to those applying them. It was recommended that work should take place on a UK conceptual framework, but, irrespective of whether or not such a conceptual framework was developed, newly-issued accounting standards should be accompanied by a statement of principles explaining their development.

(2) The creation of a new multifaceted standard-setting regime to replace the single body ASC. It was recommended that a governing Financial Reporting Council (FRC) should be formed to represent the whole constituency of interested parties, not just those of accountants. In terms of actual standard-setting, it was proposed that the ASC be reconstituted into an Accounting Standards Board (ASB) which would be able to issue accounting standards independently. It was also suggested that a third body, a Review Panel, should be established to examine any identified or alleged material departures from accounting standards.
The Dearing Committee was not in favour of granting accounting standards legal effect, but thought that company directors should be required to state in the notes to the accounts whether or not they had been prepared in accordance with applicable accounting standards. In addition, it was proposed that the Secretary of State or other authorised persons should be able to apply to the court for an order requiring the revision of defective accounts.

Taken together, these three recommendations have been implemented to create the current regulatory structure of UK accounting. The present structure of the UK accounting standard-setting regime is described below, but attention is first turned to describe the present interaction between UK accounting standards and UK company law.

The interaction of accounting standards and the law
As was mentioned above, early iterations of the Companies Act have long prescribed certain minimum accounting disclosure requirements. Despite this, however, it was only with the advent of The Companies Act 1985 that UK legislation finally provided statutory recognition of the existence and role of accounting standards. This recognition was achieved through the inclusion of a new section (section 256) in The Companies Act 1985 and of a new disclosure requirement in Schedule 4 to that Act. The first two sub-sections of section 256 read as follows:

1. In this part “accounting standards” means statements of standard accounting practice issued by such body or bodies as may be prescribed by regulations.
2. References in this part to accounting standards applicable to a company’s annual accounts are to such standards as are, in accordance with their terms, relevant to the company’s circumstances and to the accounts.

In addition, the insertion of paragraph 36A of Schedule 4 to The Companies Act 1985 introduced a requirement for companies to state whether the accounts have been prepared in accordance with applicable accounting standards and to give particulars of any material departure from those standards and the reasons therefor.

In September 2002, the European Parliament issued the so-called “International Accounting Standards” (IAS) Regulation (see EC No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. OJ L 243/1 of 11 September 2002), which placed a requirement on all member states to introduce, by 1 January 2005, legislation that forced EU listed companies to use EU-adopted international financial reporting standards (IFRS) as the basis for their consolidated accounts. As a result of this, in November 2004, the UK government issued The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004. These regulations effect companies’ financial years, which begin on or after 1 January 2005, and place a duty on all UK listed companies to prepare their group accounts in accordance with international accounting standards. By contrast, unlisted UK companies can continue using UK accounting standards or voluntarily switch to using IFRS for preparation of their individual or group accounts.

Taken together, these “accounting-based” changes to company law are critical for understanding the importance of accounting standards in the preparation of statutory financial statements and accounts.
“legal” accounts. Ever since The Companies Act 1947, there has been an overriding requirement that financial statements, prepared for the purpose of compliance with the Companies Act, should “give a true and fair view”. Whilst there is no statutory definition of the term, the meaning of the true and fair requirement, including the legal relationship between accounting standards and the Companies Act, was discussed in a 1993 opinion from Miss Mary Arden QC which states:

Just as a custom which is upheld by the courts may properly be regarded as a source of law, so too, in my view, does an accounting standard which the court holds must be complied with to meet the true and fair requirement become, in cases where it is applicable, a source of law in itself in the widest sense of that term (ASB, 1993, Foreword to Accounting Standards, Appendix para. 10).

Clearly, therefore, although UK and IFRS accounting standards have no direct legal authority or effect, it appears highly probable that they will have a very persuasive effect in the courts’ interpretation as to whether or not a company’s accounts present a true and fair view. This status is further reinforced by the Schedule 4 requirement, described above, that any departures from accounting standards be explained in the financial statements.

The current UK accounting standard-setting regime
Following the recommendations of the Dearing Report, the current UK regulatory framework for accounting was set up in August 1990. The UK standard-setting process is driven by the Financial Reporting Council (FRC), and specifically the FRC’s two subsidiary organisations, the ASB and the Financial Reporting Review Panel (FRRP). In addition, there is an offshoot of the ASB known as the Urgent Issues Task Force (UITF) and three smaller advisory committees for small enterprises, public sector and not-for-profit companies, and financial sector enterprises. The FRC is financed by the accountancy profession (via the CCAB), the Stock Exchange, the Bank of England and the government. The 20-person membership of the FRC not only includes members of the accountancy profession but also other parties who are concerned in some way with the use, audit or preparation of accounting information.

The ASB has a membership of ten, and acts as the national standard-setter for the UK. The ASB’s fundamental aim is “to contribute to the establishment and improvement of standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial information” (ASB, 2005, p. 3). Despite the impact of the EU’s IAS regulation on the standard-setting environment, the ASB sees its aim remaining unchanged. Although the ASB now appears subservient to the International Accounting Standards Board (IASB) in standard-setting, it still plays a vital role in influencing the development of future international financial reporting standards (IFRS) as a member of the IASB team of standard-setters. In addition, the ASB is currently overseeing the convergence of UK accounting standards with IFRS, and is the body responsible for implementing each IFRS in the UK.

Neither the UK professional accounting bodies, the UK government nor the FRC has any direct influence on the work of the ASB. As well as adopting and revising the ASC’s existing range of SSAPs, the ASB has issued its own standards called Financial Reporting Standards (FRSs). It is these FRSs and SSAPs that together form the essence of the UK’s “generally accepted accounting principles” (GAAP). Within the development of each FRS, a draft standard, termed a Financial Reporting
Evaluation Draft (FRED), is first issued and sent to interested parties for comment. On completion of the consultation, the ASB releases the revised standard, at which point, it becomes operative (Figure 1).

In some projects the ASB is aided by the UITF. The purpose of the UITF is to assist the ASB in areas where an accounting standard or a Companies Act provision exists, but where unsatisfactory or conflicting interpretations have developed or seem likely to develop. In such cases, the Task Force considers the issues put to it, and if it is able to achieve agreement on the appropriate solution, publishes an abstract setting out its consensus view. Such abstracts do not constitute “applicable accounting standards” under the terms of the Companies Act, but are meant to be observed unless it can be shown that to do so would not give a true and fair view. Following the adoption of IAS in January 2005, if an issue arises that requires an urgent interpretation of IFRS, the ASB’s proposed policy is to leave this to the IASB’s own International Financial Reporting Interpretations Committee (IFRIC). However, in instances where the IFRIC cannot act on a “timely basis” to solve a problem of accounting interpretation, the ASB envisages its own UITF as issuing the necessary guidance to UK constituents.

The final part of the UK accounting standard-setting regime is the FRRP, whose role is to consider the apparent defects in published accounting statements, and determine what action to take against the companies that produced them. To date, the actions of the panel have been confined to obtaining the agreement of the companies concerned as to whether to issue a statement immediately with the relevant correcting information or to amend the practice complained of in previous years. As yet, the panel

![Diagram of Accounting standard-setting regime in the UK](image)

**Source:** Author’s own, adapted from the ASB (1995), *Statement of Principles*, London: ASB
has not instituted court proceeding against any company for non-compliance with its view.

One other point needs to be mentioned regarding the UK standard-setting regime. Although the ASB is the only body that can issue UK accounting standards, it does provide a code of practice by which industry or sectoral bodies (for example, the British Bankers Association) can issue statements of recommended practice (SORPs) for their members. SORPs are aimed at providing clarification on industry-specific areas of accounting where differences and varieties of accounting treatment exist. Despite not being issued by the ASB, each SORP is closely scrutinised by the standard-setting body.

**The conceptual framework of UK accounting**

The above sections have outlined the development of the UK accounting standard-setting process and the changes introduced since January 2005. What remains to be discussed are the fundamental principles and objectives that actually guide the development of accounting standards and practice. Ever since the creation of the ASC, UK accounting standards have suffered criticism for their lack of clarity and often conflicting methods and practices. One of the reasons for such problems is that UK standards are not derived from a coherent conceptual framework that ensures that all guidance and recommended practice is derived from an underlying and consistent base. The existence of such a conceptual framework should help both standard setters and accounting practitioners and, in contrast to its predecessor, the ASB made it clear from the outset that it intended to pursue the idea of a conceptual framework to underpin its standards. It avoided the use of that term, preferring the less daunting phrase “Statement of Principles” (SoP).

In December 1999, the ASB issued the finalised version of its *Statement of Principles for Financial Reporting* (SoP) (ASB, 1995), an eight-chapter document outlining the principles used when identifying and defining the following:

1. The objective of financial statements.
2. The nature of a “reporting entity”.
3. The qualitative characteristics of financial information.
4. The elements of financial statements.
5. Recognition criteria for use in financial statements.
7. Presentation of financial information.
8. Accounting for interests in other entities.

The principles contained in the SoP are in effect short statements of the ASB’s beliefs concerning each aspect of the preparation of financial information. Post-January 2005, it is important to recognise that the IASB has its own alternative conceptual framework document that was published in May 1988. This IASB framework is currently being modernised as part of joint work with the US Financial Accounting Standards Board (FASB), and as the ASB’s framework document is most recently published, it may influence the content of any IASB conceptual framework for accounting. Furthermore, the ASB’s framework document was driven by Sir David
Tweedie, the former chairman of the ASB and the current chairman of the IASB, and, as a result, may subsequently be seen as indicative of the new IASB conceptual framework. Because of this, the main points of the ASB’s SoP will now be discussed below.

The objective of financial statements: why are financial statements prepared?

In practice financial statements can be, and are, used for many purposes including comparison of investment opportunities. According to the ASB’s SOP:

- The objective of financial statements is to provide information about the reporting entity’s financial information and financial position that is useful to a wide range of users for assessing the stewardship of the entity’s management and for making economic decisions.
- The objective can usually be met by focusing exclusively on the information needs of present and potential investors, the defining class of user.
- Present and potential investors need information about the reporting entity’s financial performance and financial position that is useful to them in evaluating the entity’s ability to generate cash (including the timing and certainty of its generation) and in assessing the entity’s financial adaptability (ASB, 1999, Chapter 1).

From this objective, it is clear that the ASB acknowledges that user groups such as investors, employees, lenders, supplier and other creditors, customers, government bodies and the public have a right to use the information in financial statements. However, the SoP goes on to state “that financial statements that focus on the interest that investors have in the reporting entity’s financial performance and financial position will, in effect, also be focusing on the common interest that all users have in that entity’s financial performance and financial position” (ASB, 1999, Chapter 1). In essence, therefore, the investor’s perspective is chosen as the one most likely to be useful in the preparation of general-purpose financial statements. This assumption is certainly open to debate.

The objective of providing information about the financial position and performance for assessing the stewardship of management and for making economic decisions appears relatively unproblematic. Accounts statements have long been used as a stewardship document prepared for existing shareholders as a statement of what has been done with the capital that these investors gave to the management of the company. In other words, accounts are a statement by the company to its investors that those monies invested with it are safe, well used and have been invested in a particular manner. As well as functioning as a basic stewardship document, the accounts must also allow users to assess the entity’s financial adaptability and its ability to generate cash flows. Financial adaptability relates to the entity’s ability to change and exploit business opportunities, and refers to the fact that it is desirable to have plenty of cash, readily realisable assets and a good credit rating. Financial statements should also allow users to assess and predict the entity’s present and future level of cash generation, as this is a major influence on any user’s economic decision-making.
The reporting entity

After establishing the objective of financial statements, the next issue to be determined is which entities need to provide accounts and what boundaries are placed on the accounts. An entity should prepare and publish financial statements if there is a legitimate demand for the information that its financial statements would provide. The boundary of the reporting entity extends to the limits of its control, which, in terms of subsidiaries and joint entities etc., extends beyond the mere legal definition of control (i.e. 50 per cent + control of the voting rights) to include control exercised via either a “dominant” or “participating” influence.

The qualitative characteristics of financial information

Figure 2 provides a diagrammatic interpretation of the ASB’s qualitative characteristics of financial information. The ASB SoP identifies four principal qualitative characteristics that should be present in financial information:

1. relevance;
2. reliability;
3. comparability; and
4. understandability.

Relevance and reliability are primary characteristics that determine the information content, whilst comparability and understandability relate to secondary qualities that govern the presentation of the information. All financial information should possess an appropriate “balance” of each of these four characteristics, but should also exhibit an additional “threshold” characteristic of materiality. Material information is information whose omission or misstatement might reasonably be expected to influence the economic decisions of users. If information is deemed to be immaterial, either due to its relatively small size or actual nature, then it should be excluded from the accounts.

Figure 2.
The ASB’s qualitative characteristics of financial information

Source: Author’s own, adapted from the ASB (1995), Statement of Principles, London: ASB
According to the ASB, relevant information is deemed to possess the ability to influence the economic decisions of users and must be provided in time to influence those decisions. In contrast, reliable information must be free from material error or bias, can be depended upon by users to represent faithfully what it purports to represent, and, in conditions of uncertainty, must apply a degree of caution during its preparation. The secondary characteristic of comparability embraces notions of consistent application of accounting methods throughout an enterprise and through time, as well as the ability to compare one enterprise with another, which implies adequate disclosure of accounting policies. Understandability requires that users are able to perceive the significance of the information provided, assuming that users have a reasonable knowledge of business and economic activities and accounting and a willingness to diligently study the information provided.

In terms of the primary characteristics of accounting information, the ASB acknowledges that efforts to provide accounting information that is both relevant and reliable is almost impossible in certain situations, thus requiring a degree of trade-off. In such situations of conflict, the SoP states that “if a choice exists between relevant and reliable approaches that are mutually exclusive, the approach chosen needs to be the one that results in the relevance of the information provided being maximised” (ASB, 1999, Chapter 3). Therefore, the ASB’s SoP takes the view that relevance takes priority over reliability and states that relevant information has the ability to “influence the economic decision of users and is provided in time to influence those decisions” (ASB, 1999, Chapter 3).

This assertion of relevance over reliability is a substantial departure from the traditional emphasis towards prudence in accounting. As is shown in Figure 2, the importance of prudence to the ASB is much reduced, with it being relegated to just one of the five components comprising reliability. Whilst this move away from prudence in UK accounting standard-setting has been criticised, it highlights the view of the ASB in moving towards “fair value” accounting, as “fair values” are more relevant than cost-based values even if they are somewhat unreliable. For example, the £1 million historical purchase cost of a property bought in 1990 is a totally objective and “reliable” value to include in the financial statements, but it is not a decision “relevant” measure for investors if the property has a current open market value of £42 million.

The constituent elements of financial statements

In order to determine whether or not a transaction needs to be accounted for, the ASB’s SoP provides definitions of what comprises each of the key elements of financial statements. These definitions are critical for understanding the methodology used by accountants when they translate economic transactions into accounting information. For example, the SoP provides the following definitions of assets, liabilities, gains and losses:

- assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events;
- liabilities are obligations of an entity to transfer economic benefits as a result of past transactions or events;
gains are increases in ownership interest (i.e. the difference between assets and liabilities) not resulting from contributions from owners (i.e. capital introduced by the owner); and

- losses are decreases in ownership interest not resulting from distributions to owners.

If an economic business transaction results in the creation of an item that fits any of the above definitions, an entry should be made in the financial accounts. For example, if a property company raises a £4 million loan in order to purchase a new head office, both an asset and a liability should be shown in the accounts. The property is an asset in the company’s accounts, as it now owns the rights to the future economic benefits that can be derived from the use of the property (i.e. through its rental or sale). The liability arising from the transaction is the legal obligation to repay both the original loan and associated interest payments when they fall due. In addition to the asset and liability resulting from the transaction, a “loss” must be recorded when interest on the loan is incurred and a “gain” occurs if the property appreciates in value or rental income is generated.

Recognition and measurement of transactions in the financial statements

In the above property transaction example, it is clear that an accounting asset and offsetting liability were created according to the ASB definitions. However, what remains to be determined is when exactly such elements should be recognised and measured in the accounts. An element should be recognised in the accounts if:

Sufficient evidence exists that the new asset or liability has been created or that there has been an addition to an existing asset or liability; and the asset or liability can be measured at a monetary amount with sufficient reliability (ASB, 1999, Chapter 5).

Thus, an asset or liability can only be recognised in the accounts if they can additionally be measured in a monetary amount with “sufficient reliability”. This recognition rule effectively excludes certain business transactions and activities from being recognised in the accounts if their accounting impact value is uncertain and subjective.

In terms of the actual measurement basis that can be used during the preparation of financial statements, the ASB SoP sets out three realistic alternatives:

1. Measurement using a historic cost (HC) system;
2. Measurement using a current value (CV) system; and
3. Mixed measurement system, with some assets and liabilities measured on a historical cost basis and some on a current value basis.

Of these alternatives, the SoP envisages that the mixed measurement system should be adopted, with an appropriate use of HC and CV depending on the asset or liabilities being accounting for. In terms of how to calculate CV, the SoP discusses a number of alternative approaches, but sensibly suggests that the modified historical cost approach to measurement (MHCA) should continue. The MHCA uses the HC as the initial starting point for valuing an asset or liability, and following periodic revaluation, the HC value of the item may be depreciated or restated to its CV.
Presentation of financial information
The ASB SoP envisages that an annual report should contain three primary financial statements:

1. financial performance ("profit and loss" account);
2. financial position (the balance sheet); and
3. cash inflows and outflows (the cash flow statement).

The determination of accounting policies
As part of the ASB's conceptual framework programme, FRS 18 Accounting Policies superseded SSAP 2 in June 2001. FRS 18 aimed to move UK accounting towards a new "fair value" balance sheet-based approach to the reporting of gains and losses, and placed considerably less emphasis on the importance of reporting realised profits only (e.g. those resulting from assets that have been sold rather than from unrealised "holding" gains obtained by unsold assets appreciating in value). Similarly, the IASB is slowly incorporating the concept of "fair value" measurement into its standards, although its use of the term is as inconsistent as that of the ASB. Under a "fair value" system of accounting, defining income is relatively uncomplicated: assets minus liabilities equal ownership interest; gains and losses are increases and decreases in ownership interest (other than contributions from and withdrawals to owners). However, ascertaining income, which has to rely heavily on measuring the changes in fair value of assets and liabilities, is far from straightforward.

At present, The Companies Act 1985 still includes a formal requirement that when preparing financial statements only profits deemed "realised" at the balance sheet date should be included in the profit and loss account. This legislation presently rules out the "fair value" based, balance sheet approach to the reporting of gains and losses that is being embraced by the ASB. In accordance with The Companies Act 1985, FRS 18 states that only profits realised at the balance sheet date should be included in the profit and loss account, i.e. in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with "reasonable certainty". Whilst the term "reasonable certainty" is not defined or even discussed in FRS 18, its use implicitly tries to reduce the reliance on prudence when preparing accounts. In effect, the objective of "reasonable certainty" is to produce an appropriate measure view of income, rather than either a pessimistic or excessively optimistic view of it.

However, through FRS 18, the ASB is implicitly and explicitly laying the foundations for the move towards a single combined income statement that aggregates all accrual-based trading income with fair value changes, whether realised or unrealised.

Under FRS 18, a reporting entity must adopt and disclose accounting policies that are most appropriate to its particular circumstances for giving a "true and fair view" in its financial statements. Accounting policies are those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising,
- selecting measurement bases (such as HC and CV) for; and
- presenting assets, liabilities, gains, losses and changes to shareholders funds.
For example, an accounting policy for the purchase of freehold land and property could specify that such expenditure will be recognised as a fixed asset, that it will be measured at historical cost, and will state that it will be presented in the balance sheet as a tangible fixed asset. Figure 3 provides a copy of the actual accounting policy used by Rugby Estates plc when dealing with investment properties in its annual report dated 31 January 2000 (Rugby Estates, 2000).

FRS 18 acknowledges that two accounting concepts play a pervasive role in the selection of accounting policies:

- going concern; and
- accruals.

The going concern concept assumes that accounts are prepared on the basis that the reporting entity will continue to trade into the foreseeable future. Under FRS 18, there is now an explicit requirement that directors should assess whether there are significant doubts about an entity’s ability to continue as a going concern. Any such doubts should be disclosed, and if the entity is heading for bankruptcy, the accounting figures should reflect this. The accruals concept requires the non-cash effects of transactions and other events to be reflected, as far as possible, in the financial statements for the accounting period in which they occur, and not, for example, in the period in which any cash involved is received or paid. This system of “accruals accounting” should be used during the preparation of every accounting statement apart from the cash flow statement.

Once selected, accounting policies should only be changed if they no longer provide accounts that exhibit a “true and fair” view. In most instances, the accounting policies

**Investment Properties**

Certain of the group’s properties are held for long-term investment. Investment properties are accounting for in accordance with SSAP 19, as follows:

1) investment properties are revalued annually and the surpluses or deficits are transferred to a revaluation reserve. In case of permanent impairments in value of individual properties, any deficits below cost are taken to the profit and loss account for the period; and

2) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold properties and leasehold investment properties with over 20 years to run.

Although the Companies Act would normally require systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation or amortisation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation or amortisation is only one of the many factors reflected in annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

**Source:** Rugby Estates annual report for 2000
selected by an entity should follow practices allowed by relevant UK accounting standards, but in “exceptional circumstances” a policy may depart from standard accounting practice. If such a “true and fair override” is used, the reasons for using the abnormal accounting policy must be explained and disclosed in the notes to the accounts.

Where relevant accounting standards allow alternative accounting treatments, the appropriateness of accounting policy choice should be judged by reference to the qualitative characteristic objectives of relevance, reliability, comparability and understandability (as discussed earlier above). According to FRS 18, the most appropriate accounting policy is that which balances the four objectives, alongside the cost/benefit balance of providing the information. This requires careful judgement.

Conclusion
This paper has outlined the regulatory and theoretical framework of UK accounting. This is intended to introduce the conceptual framework, or statements of principles, through which accountants view property and its ancillaries. Accounting processes do not simply spring into existence, but are the result of various technical and professional groupings and debate and consultation amongst them and between interested parties. It is imperative that property professionals play their part within these discourses, and that their own professional viewpoint is incorporated into this. Accounts setting can be regarded as an ideology, in which a host of loosely connected gestalts are competing for attention and inclusion within a discourse. Understanding the principles upon which UK accounts are established and the worldview of the accounting profession is an important part of establishing a useful dialogue between property professionals and other interested parties within this wider discourse.

Note
1. These are: Chartered Institute of Accountants in England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS), Institute of Chartered Accountants in Ireland (ICAI), Association of Certified Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA); Chartered Institute of Public Finance Accountants (CIPFA). There is discussion of mergers between institutions, most currently between ICAEW and CIMA.

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