

# Chapter 5: Guidance on the Preparation of the Annual Report and Notes to the Financial Statements

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## General Accounting Policies and Components of the Financial Statements

5.1 Each College is required to prepare financial statements and related reports for each financial year, which should give a true and fair view of its state of affairs at the balance sheet date, and of its results and cash flows for the period. The financial statements should encompass:

- income and expenditure account
- statement of total recognised gains and losses
- statement of historical cost surpluses and deficits
- balance sheet
- cash flow statement
- statement of principal accounting policies
- notes to the financial statements

5.2 In accordance with FRS 2 *Accounting for Subsidiary Undertakings*, where the College has subsidiary undertakings, it should normally prepare consolidated financial statements.

5.3 The accounting policies adopted for dealing with material items should be explained in the notes to the financial statements. These explanations should be clear, fair and as brief as is consistent with clarity.

5.4 The financial statements should normally be prepared using the historical cost convention as modified by the

revaluation of inherited assets and other assets where a College has chosen to revalue them.

5.5 The related reports should include the following:

- an operating and financial review (which may also be called a members report or report of the governing body)
- statement of corporate governance and internal control
- statement of responsibilities of the governing body
- financial statements and regularity auditor's reports

## The Operating and Financial Review (OFR)

5.6 All the corporation members are jointly responsible for the preparation of the annual report and accounts and should prepare in respect of each financial year:

- a report describing what the corporation is trying to do and how it is going about it, including the legal and administrative status of the corporation
- accounts and notes thereto in accordance with the 2007 SORP and guidance issued by the **LSC and its successor organisations**.

5.7 Whilst the report is legally a separate document from the accounts, it is expected that they will be presented together in the same publication.

5.8 The annual report and accounts should be approved by the corporation as a body in accordance with its usual procedures (drafts being given to

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the members of the corporation a reasonable time in advance) and both documents should be signed on behalf of the corporation by one of their number authorised so to do (usually the Chair). The date of approval should be stated. Any members who consider that the report and/or accounts should not be approved, or should not have been approved, should report to the **appropriate funding body** as the regulator of Colleges, any of their concerns which they are unable to resolve with their fellow members and/or with the financial statements auditors.

5.9 The annual report should explain what the College is trying to do and how it is going about it. It should show whether the College has achieved its objectives during the year and explain its plans for the future. It should also help the reader of the report and accounts to understand how the numerical part of the accounts relates to the activities of the College.

5.10 The 2007 SORP introduced the requirement to include an OFR for the first time in 2007/08. This review should follow the best practice set out in the Reporting Statement '*The Operating and Financial Review*' issued by the Accounting Standards Board in January 2006. Paragraphs 25 and 26 of the 2007 SORP state that the OFR:

“should provide a comprehensive and balanced analysis, **consistent with the size and complexity of the institution**, of:

- (a) the development, performance and operation of the business

and operation of the institution during the financial year;

- (b) the position of the institution at the end of the year;
- (c) the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and
- (d) the main trends and factors which are likely to affect the institution's future development, performance and position.

The OFR should:

- (a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);
- (b) focus on matters that are relevant to the interests of *funders and financial supporters*;
- (c) have a forward-looking orientation, identifying those trends and factors relevant to the *funders and financial supporters'* assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;
- (d) complement as well as supplement the *financial statements*, in order to enhance the overall corporate disclosure;
- (e) be comprehensive and understandable;
- (f) be balanced and neutral,

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dealing even-handedly with both good and bad aspects; and

- (g) be comparable over time.

Paragraph 27 goes on to say that the key elements of the disclosure framework are:

- (a) the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;
- (b) the development and performance of the institution, both in the financial year under review and in the future;
- (c) the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and
- (d) the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.

5.11 The format and content of the OFR is **not prescribed** though the Casterbridge model accounts illustrate one specific interpretation of the principles. Colleges should have regard to their own particular circumstances, the size and complexity of the institution, the nature of future events such as a property strategy or a debt refinancing arrangement, exposure to overseas risks and so on when deriving their own reviews. The College's Risk Register should provide a useful

source of information for this reporting area and auditors will want to cross reference between the two documents for completeness of disclosures. ***It is not expected that the Casterbridge example will become a template for Colleges across the sector.***

Illustrative sections of the revised annual report and the disclosure requirements are summarised in Table 5.1.

**Table 5.1: Outline of illustrative Casterbridge College annual report**

Heading in model Casterbridge College annual report	Disclosure requirements*
<b><i>Nature, Objectives and strategies</i></b>	
Legal status	Mandatory
Mission	Optional
Implementation of strategic plan	Optional
Financial objectives	Optional
Performance indicators	Optional
<b><i>Financial position</i></b>	
Treasury Management	Optional
Cash flows	Optional
Liquidity	Optional

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Heading in model Casterbridge College annual report	Disclosure requirements*
Going Concern including future financial performance as appropriate	Optional
<b>Current and Future Developments</b>	Optional
Student numbers	Optional
Student achievements	Optional
Curriculum developments	Optional
Post balance sheet events	Optional
Payment performance	Optional
Competitive environment	Optional
Environmental issues	optional
<b>Resources</b>	
<b>Principal risks and uncertainties</b>	
<b>Stakeholder relationships</b>	
Equal opportunities and employment of disabled persons	Optional
Disability statement	Mandatory
Disclosure of information to auditors	Mandatory
Professional advisors	Optional
Corporate governance	Mandatory

Heading in model Casterbridge College annual report	Disclosure requirements*
statement (including list of governors who served on board during year)	
Statement of the responsibilities of the corporation members	Mandatory
Public Benefit Test	Optional

\*"Optional" in these circumstances is intended to mean "indicative".

As noted above, as long as the mandatory requirements are maintained, **Colleges are able to tailor the report to their own requirements.** It is however expected that it would be appropriate for most Colleges to include commentary on the majority of the items listed. The lists are by no means exhaustive, nor the suggested wording mandatory. For example, a College may wish to add a statement on its social, environmental and ethical arrangements to the above.

5.12 It is important that, on tailoring the members' report to their own requirements, Colleges consider the users of their report and financial statements, namely:

- the College's main funding body
- other funding councils
- Government departments and Parliament
- the institution's employees
- the institution's students
- lenders and creditors
- other institutions, schools and industry

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- grant-awarding bodies, donors and benefactors
- the general public.

5.13 Therefore, each College should adapt the narrative according to its own particular circumstances, but should cover all of the following:

- legal status of the corporation
- an explanation of the strategy of the College, which should include the mission statement of the College, its objectives and the targets in its three-year development plan
- a review of the activities of the College (including its subsidiary undertakings if applicable) in the context of its strategy, including significant changes, developments and achievements in the past year, events affecting those activities since the year end and plans for the future
- a statement of the College's financial objectives and assessment of its financial performance during the accounting period. If the College has net current liabilities, then there should be an explanation of why this is the case and what action is being taken
- a disability statement. Whilst a statement is required, it is not necessary to copy word for word the example provided in the model Casterbridge College members' report. However, it will be important to the users of the accounts if the College states whether the statement complies with the Disabilities Discrimination Act 1995 as updated by the

Special Education Needs and Disability Acts of 2001 and 2005.

- a statement of the responsibilities of the corporation members
- a corporate governance and internal control statement including a list of the governors who served on the board during the year. This statement should confirm that the major risks to which the College is exposed, as identified by the corporation, have been reviewed and systems have been established to mitigate those risks.

5.14 The large majority of Colleges are exempt charities under the Charities Act 2006 as they were under the previous act. As such they are not required to include within their annual reporting, how they meet the "public benefit test" for their charitable activities. Any Colleges that are **registered** charities however, will have to make specific reference to this within their accounts, most likely within their OFR. Guidance on this matter is being developed by the Charities Commission and any Colleges that believe they are affected by this legislation should discuss it with their auditors and refer to the guidance on the relevant [Charities Commission website pages](#).

### Notes to the Financial Statements

5.15 The objectives of the notes to the financial statements are to:

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- supplement the information given in the financial statements in respect of any particular items that are shown on the face of the income and expenditure account or balance sheet
- indicate any particular circumstances that affect items included in the income and expenditure account
- provide details of any other matters relevant to an assessment of the College's state of affairs
- supplement the information given in respect of particular items appearing in the cash flow statement.

5.16 The notes to the financial statements should indicate the accounting policies that have been adopted and state whether the financial statements have been drawn up in accordance with the requirements of the **LSC and its successor organisations** and the 2007 SORP. In particular, the accounting policies adopted in relation to the following items should be disclosed:

- recognition of income
  - pension schemes
  - capitalisation and depreciation of tangible fixed assets, including the policy in respect of any buildings used (but not owned) by the College
  - leases
  - investments
  - stocks
  - foreign currency transactions
  - taxation
  - subsidiary undertakings.
- 5.17 The following items must also be included in the notes to the financial statements:
- the period of account
  - more detailed information relating to the income and expenditure account
  - explanation of any exceptional items and their presentation in the accounts
  - employee numbers and costs
  - emoluments of the College's senior post-holders and members\*
  - compensation for loss of office paid to senior post-holders
  - taxation
  - details of tangible fixed assets and depreciation
  - details of fixed asset investments
  - details of endowment assets
  - stocks
  - details of cash in bank held for future fixed-asset investments
  - analysis of debtors and creditors
  - details of all provisions for liabilities and charges\*\*
  - details of deferred grants
  - financial commitments and contingencies\*\*\*
  - details of pension schemes, including FRS 17 (revised) *Retirement Benefits* disclosures
  - details of post balance sheet events

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- details of the notes to the cash flow statement
- details of subsidiaries consolidated into the accounts
- the name of any subsidiary excluded from the consolidation and the reasons for its exclusion, the aggregate capital and reserves at the subsidiary's most recent financial year end and its profit or loss for that year
- auditors' remuneration for external audit, internal audit and other services, split between internal and external audit\*\*\*\*
- details of related party transactions
- an analysis of the grant and subsequent reimbursement of access funds.

\* For this purpose, "emoluments" include the normal remuneration salary, whether paid by the College or any subsidiary undertaking and contributions paid under any pension scheme, the estimated monetary value of any benefits received other than in cash, and any expense allowances to the extent that they are chargeable to UK income tax. No member of the corporation may receive any remuneration for his or her services, other than as a member of staff, without the written approval of the Secretary of State for Education and Skills. Members may receive reimbursement for reasonable expenses.

\*\* Provisions for liabilities and charges are defined in the Companies Act 2006 as "amounts retained as reasonably necessary for the purpose of providing for any liability or loss which is either likely to be incurred, or certain to be

incurred, but uncertain as to the date on which it will arise".

\*\*\* A contingency is a condition that exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

\*\*\*\* The Companies (Disclosure of Auditor Remuneration) Regulations 2005 are effective for companies for periods starting on or after 1 October 2005 and require disclosure of audit fees and extensive disclosure of remuneration receivable by the auditor and its associates for other services. Reference should be made to these Regulations for the appropriate level of disclosure both in the consolidated accounts of the College regardless of its corporate structure and in subsidiary company accounts where relevant.

## Corresponding Amounts

5.18 Corresponding amounts for the accounting period immediately preceding that to which the financial statements relate shall be stated in respect of every item shown in the College's primary financial statements and in a note to the financial statements, except where corresponding amounts are specifically not required.

5.19 Corresponding amounts are not specifically required for the following items:

- particulars of the College's shareholdings in other undertakings
- particulars of fixed-asset additions and disposals, transfers of fixed assets and the depreciation charge

- particulars of amounts transferred to and from reserves and provisions

## Accounting Standards

5.20 In discharging their obligation to prepare financial statements showing a true and fair view, Colleges are required to follow the SORP which provides guidance on the standards laid down in Statements of Standard Accounting Practice (SSAP), Financial Reporting Standards (FRSs) and Urgent Issues Task Force (UITF) abstracts. Colleges should agree the appropriateness of the accounting policies adopted with their financial statements auditors. The financial statements should contain a statement as to whether they have been prepared in accordance with the SORP. Financial statements that depart from the 2007 SORP **without adequate explanation or justification** may not be considered to be true and fair.

5.21 All Colleges must comply with the financial reporting requirements contained in any UK legislation relevant to their constitution. **Where a College is constituted as a company, the financial statements must be properly prepared in accordance with the provisions of the Companies Acts 1985 and 2006 as appropriate.** This is particularly important when considering the alternative presentation of property strategy costs outlined in the model Casterbridge College accounts.

## Substance over Form

5.22 Under FRS 5 *Reporting the Substance of Transactions*, a College should report the substance of transactions into which it has entered and not simply the legal form. FRS 5 does not change the accounting treatment or disclosure of the vast majority of transactions. Areas that Colleges should consider are:

- transactions entered into under the Private Finance Initiative and major Public–Private Partnership projects
- quasi-subidiaries, where an entity is in effect controlled by the College but does not meet the legal definition of a subsidiary undertaking
- sale and repurchase agreements
- sales and leaseback agreements
- land and buildings owned by a third party
- property leased at less than market rates
- agency arrangements.\*

Where FRS 5 may apply, Colleges should consult their financial statements auditor.

\* Chapter 6 contains further guidance in this area and should be referred to according to need.

5.23 In September 1998, the Accounting Standards Board (ASB) published an amendment to FRS 5 in the form of an application note on transactions subject to the Private Finance Initiative (PFI). It sets out guidance on which of the parties to a PFI transaction should

record the relevant asset(s) on its balance sheet. Colleges that have entered into PFI transactions, or that intend to do so, will need to comply with this amendment to FRS 5. Colleges may wish to consult their financial statements auditor on this matter.

## Financial Reporting Standard for Smaller Entities

5.24 The Financial Reporting Standard for Smaller Entities (FRSSE) was revised in December 2001 and became effective from June 2002.

Regardless of whether they fall within the scope of the FRSSE because of their size, Colleges are required to apply SSAPs, FRSs and UITF abstracts when preparing their financial statements.

5.25 Where a College has a subsidiary undertaking (College

The following table considers the main headings within the financial statements and provides additional explanatory notes as appropriate:

### Income and Expenditure Account

5.26 The notes to Colleges' financial statements should provide further information about each of the income and expenditure figures shown on the face of the income and expenditure account. **Illustrative examples** are provided in the model Casterbridge College accounts. Detailed guidance on key disclosures is set out below.

5.27 Income is split into funding council grants, tuition fees and education contracts, research grants and contracts, other income-generating activities, catering, residence and conferences, farming, investment income and other income, in order to determine the dependency of a College on particular sources of income.

5.28 Expenditure is split into staff costs, other operating expenses, depreciation, interest payable and any exceptional costs.

### Depreciation

5.29 This should match the depreciation charge for the year indicated by the note in the financial statements on tangible fixed assets, subject to the alternative, separate, presentation of accelerated depreciation.

company) that falls within the scope of and adopts the FRSSE, the following additional disclosure is required in the College's consolidated accounts in respect of each subsidiary undertaking.

- Directors' emoluments and staff costs and numbers should be fully disclosed in accordance with the guidance for Colleges set out in Chapter 4 of this Handbook
- Details of any activities which take place outside England and the nature of any transactions with organisations outside England should be given.
- Full disclosure should be made of the subsidiary undertaking's related party transactions in accordance with FRS 8 *Related Party Disclosures*

## Cash Flow Statement

5.30 This schedule calculates a cash flow statement, as required by FRS 1 *Cash Flow Statements* (revised 1996). The entries on this form are as follows:

- Cash is regarded as cash-in-hand, deposits and overdrafts repayable on demand (under one working day's notice).
- Liquid resources are (readily disposable) current asset investments. They are capable of disposal without disrupting the business and are either traded in an active market or readily convertible into known amounts of cash. Liquid resources include items such as money market deposits, listed investments and local authority bonds.
- Net debt is defined as borrowings under FRS 4 *Capital Instruments*, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans.
- An additional section on management of liquid resources is included in the cash flow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments.
- The standard requires a separate reconciliation of net cash flow to movement in net debt.

## Note 2 Funding Council Income

5.31 The purpose of this analysis is to ensure that all individual grants given for specific purposes are identified in a College's financial statements sufficient to satisfy the requirements of FRS 8 *Related Party Transactions* and are covered by the financial statements auditor's opinion.

5.32 The minimum analysis may need to vary from year to year to provide users of the accounts with enough information to understand the activities of the College.

5.33 The note should provide sufficient information to allow the reader to understand the major types of income received from each funding body, whether this income is received through a direct funding arrangement or through a third party organisation (often termed "managing agents"). It will include as a minimum:

a **appropriate funding body income:**

recurrent grant – allocation

non recurrent grant income as a total

release of capital grants – this line matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants)

b HEFCE income:

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<p>recurrent grant – include income received direct from HEFCE for prescribed HE, including that transferred from the <b>appropriate funding body</b></p>
<p>non recurrent grant income</p>
<p>release of capital grants</p>
<p>c Grants from other Funding bodies, such as the Training and Development Agency for Schools</p>
<p>5.34 Where the ultimate source of a material income stream is <b>the LSC and its successor organisations</b>, then it is preferred that such income be shown within Note 2 regardless of whether it is earned directly or through a subcontract arrangement. <b><i>This will include:</i></b></p>
<p>Work Based Learning</p>
<p>Train To Gain income as a consortium member or subcontractor</p>
<p>Co Financed income</p>
<p>5.35 This presentation <b>of LSC and its successor organisations'</b> sourced income aligns the financial statements more closely with the Finance Record and reduces the level of inconsistency found in Colleges' accounts. For the avoidance of doubt, the existing treatment of HE income which may also be derived through a direct contract with HEFCE or through a franchise arrangement with a partner university, will continue such that the recurrent grant is shown in Note 2 but the franchised-in income should be presented in Note 3, Education contracts. Again, this enables a closer alignment with the existing finance Record requirements.</p>
<p><b>Adjustments to recurrent funding</b></p>
<p>5.36 In some cases, following receipt by the <b>appropriate funding body</b> of an audited learner record claim, a College's recurrent funding for prior years may be adjusted in excess of the estimates included in their audited financial statements. Such further adjustment will be included in <b>appropriate funding body</b> grants on the face of the income and expenditure account and may need to be separately disclosed in the notes to the accounts where significant to the understanding of the accounts.</p>
<p>5.37 Such late adjustments will not however be significant or fundamental enough to justify a prior year adjustment in the financial statements.</p>
<p>5.38 Where an accrual is made for claw-back of recurrent funding, this should be included in "Creditors: amounts falling due within one year" and not in provisions.</p>

## Exceptional support funding

5.39 Some Colleges may receive exceptional support funding from **the appropriate funding body** in order to assist them in either implementing a College combination, or the delivery of a strategic recovery plan. This funding is provided as a grant, outside the mechanisms of the funding methodology. As with any grant, the accounting treatment should be determined in the light of any terms and conditions agreed between **the appropriate funding body** and the College.

5.40 In most cases (***unless the terms and conditions indicate otherwise***), exceptional funding support for Colleges in recovery should be recognised as income in the College financial year in which it is received and disclosed in Note 2 *Funding Council Grants* to the financial statements. These funds are typically provided to cover significant restructuring costs and to reset weakened cash positions. The College will usually have an absolute right to the consideration and hence be able to recognise them immediately. If the amount is material to a College's financial statements, then it should be shown separately instead on the face of the income and expenditure account in accordance with FRS 3 *Reporting Financial Performance*. Colleges will need to discuss the disclosure of such grants with their financial statements auditors.

5.41 The terms and conditions of the exceptional funding support package may indicate that **the appropriate funding body** will recover this funding, if these terms and conditions are not met. Where this is the case, the College should show the funding as a contingent liability. Colleges will need to discuss the appropriate treatment with their financial statements auditors.

5.42 Merger support funding on the other hand is often provided to fund a specific budget at an agreed intervention rate. The costs behind this budget are typically incurred over a period greater than one year and Colleges will want to try and match the income against the costs as far as possible. Where the costs are incurred substantially within the same period as the receipt of the associated support funding then both should be recognised immediately and in full. Separate disclosure of the amounts may be required on the face of the Income and Expenditure accounts where the amounts are significant. Where the costs are incurred over a period of time beyond one year, the College should recognise the income in proportion to the original intervention rate based on the submitted budget. Any overspends of costs against budget should be dealt with as they arise and not either anticipated or deferred.

5.43 Exceptional support funding should not be confused with advances of funding from the **appropriate funding body** which should be treated as a creditor in the balance sheet under "Payments received on account". (Advances of funding will only be made by the **appropriate funding body** where the College is in financial difficulties and has exhausted all possible means of raising finance.)

## Note 3 Tuition Fees and Education Contracts

5.44 This note has previously been reduced in detail such that the minimum disclosure is as below. Colleges can add further disclosures where necessary to better the understanding of the user of the accounts.

<ul style="list-style-type: none"> <li>• Tuition fees*</li> </ul>
<ul style="list-style-type: none"> <li>• Education contracts</li> </ul>
<p>* Note – where bursary payments are made out of tuition fee income received, these should be shown in other operating expenses and not netted off against the related income.</p>
<p>5.45 In addition Colleges should include a narrative stating the amount of tuition fees funded by bursaries, whether funded by the College itself or by another route.</p>
<p>5.46 Colleges should note the additional information in Paragraphs 5.34 and 5.35 above which requires <b>appropriate funding body</b> income, whether direct or indirectly contracted for by the College, to be presented within Note 2.</p>
<p><b>Note 4 Research Grants and Contracts</b></p> <p>5.47 This note should provide sufficient information to allow the reader to understand the major sources of research project income upon which the institution is dependent. It will be up to individual institutions to determine the level of disclosure that is appropriate to their particular circumstances. This will include:</p>
<ul style="list-style-type: none"> <li>• European funds – revenue grant income from European structural funds. Include the release of European Regional Development Fund capital grants. Colleges receiving funds before incurring the cost relating to the grant will match the income and expenditure in their forecast by crediting current liabilities with the unexpended proportion of the grant</li> </ul>
<ul style="list-style-type: none"> <li>• other funds – this will include income from the post-16 partnership funds and the Skills Development Fund, and all income in respect of research carried out by the College.</li> </ul>
<p><b>Other Income</b></p> <p>5.48 This note has been removed as a requirement in the financial statements. The Finance record will continue to collect certain details about Other income but it will be up to individual institutions to determine the level of disclosure that is appropriate to their particular circumstances. Where grants, other than national funding bodies (see Note 2) are received other than for research (see Note 4) they should be disclosed as other grant income in this note.</p>
<p><b>Note 5 Endowment and Investment Income</b></p> <p>5.49 This will include:</p>

<ul style="list-style-type: none"> <li>investment income – include any other investment income earned, such as income from the investment of short-term funds and the realisation of investments held as long-term funds. Do not include interest that will be shown at line 5b. Income derived from investment assets held for restricted (specific) purposes imposed by the donor or funder will normally be recognised in the income and expenditure account in full as a credit on a receivable basis. Any endowment income earned in excess of that applied to the restricted (specific) purpose should be transferred from the income and expenditure account after the result for the year has been struck to accumulated income within endowment funds in the balance sheet.</li> </ul>
<ul style="list-style-type: none"> <li>interest received and receivable – include interest from all sources.</li> </ul>
<ul style="list-style-type: none"> <li>pension finance income – the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off. The net figure should be included either in endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 of Casterbridge) and the <b>net</b> figure included either in the endowment and investment income note (Note 5 in Casterbridge) or in the interest and other finance costs note (Note 9 in Casterbridge).</li> </ul>
<p>5.50 The finance record does not ask Colleges to provide details of any endowments.</p>
<p><b>Note 6 Staff Costs</b></p> <p>5.51 Staff costs will include basic payroll costs, overtime and other allowances and additions, employers' superannuation costs, employers' national insurance contributions, premature retirement costs and redundancy costs. It should include full-time and part-time staff, temporary staff and those on fixed-term contracts. Do not include reimbursement of expenses paid via the payroll – for completeness in the Financial Statements they should be treated as non-staff costs. Contracted tuition services should continue to be included as the pay costs of agencies used for providing tuition services.</p>
<p>5.52 The previous requirement to analyse costs over department headings has been removed to reduce the disclosures to teaching and non teaching staff FTE numbers only as a minimum disclosure. As before, Colleges may expand the analysis to suit their own circumstances and may wish to consider the impact of restructuring costs, FRS 17 and contracted out tuition services as additional levels of disclosure as appropriate.</p>
<p><b>FRS 17 staff cost adjustments (if required)</b></p> <p>5.53 The additional FRS 17 charge for staff costs, such as the difference between employer contributions and current service costs and past service costs or gains, <b>may</b> be shown as a figure, separate to other elements of staff costs, consistent with the finance record.</p>

## Higher paid staff

5.54 The total number of higher paid staff, including senior post-holders, in bands of £10,000 (above a threshold of total emoluments of £60,000, in line with that found in the Charities SORP), should be disclosed in the interests of public accountability in the staff costs note. The number of senior post-holders within each band should be separately identified within the note.

### Note 7: Senior Post-holders' Emoluments

5.55 Colleges are required to disclose the following in their financial statements:

- the emoluments of the Principal. Where there has been more than one Principal during the course of the year, the emoluments should be disclosed separately.
- the aggregate emoluments of the College's senior post-holders (see 5.62 below)
- the aggregate emoluments of the corporation's members
- the emoluments of the highest paid senior post-holder, if not the Principal
- emoluments due to a senior post-holder but waived by the post-holder
- the number of senior post-holders (in bands of £10,000), including the Principal (this information may be combined with similar information for all higher paid staff)
- the aggregate amount of any compensation paid to senior post-holders or past senior post-holders for loss of office
- the number of post-holders who have been paid such compensation.

5.56 The term "senior post-holders" is defined in the articles of government for each College as "the Principal and holders of other such senior posts as the governing body may determine for the purposes of the articles of government of the College relating to the appointment and promotion of staff". Colleges may wish to list senior post-holders in the members' report, together with their dates of appointment and, where relevant, resignation.

5.57 "Senior post-holders' emoluments" means emoluments paid to, or receivable by, any person for:

- services as a senior post-holder of the College
- services as a director or officer of any subsidiary of the College, during the period of appointment as a senior post-holder.

5.58 For this purpose, "emoluments" paid to, or receivable by, a senior post-holder include the normal remuneration salary, and the following:

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<ul style="list-style-type: none"> <li>• fees</li> </ul>
<ul style="list-style-type: none"> <li>• any expense allowances (to the extent that they are chargeable to UK income tax)</li> </ul>
<ul style="list-style-type: none"> <li>• contributions <b>paid</b> for the senior post-holder under a pension scheme</li> </ul>
<ul style="list-style-type: none"> <li>• the estimated money value of any benefits received other than in cash</li> </ul>
<ul style="list-style-type: none"> <li>• emoluments for any person accepting office as a senior post-holder.</li> </ul>
<p>Note – the emoluments above do not include any adjustments arising from FRS 17 otherwise included within the staff costs note</p>
<p>5.59 Senior post-holders' emoluments should not include the employer's national insurance contributions. Compensation for loss of office is a category of payment different from an "emolument". Consequently, it should not be included in that person's emoluments for banding purposes. Compensation for loss of office includes:</p>
<ul style="list-style-type: none"> <li>• any amount paid in connection with a senior post-holder's retirement</li> </ul>
<ul style="list-style-type: none"> <li>• the estimated monetary value of benefits received or receivable other than in cash and, where compensation is given in kind, disclosure of its nature</li> </ul>
<ul style="list-style-type: none"> <li>• any top-up or enhancement to the pension scheme.</li> </ul>
<p>5.60 The normal remuneration salary of staff governors who are not senior post-holders does not need to be disclosed separately.</p>
<p>5.61 If more than one person has held the post of Principal during the year, each such person's total emoluments for the year must be attributed to that part of the year during which they were Principal, and these amounts must be disclosed separately.</p>
<p>5.62 The disclosure of the Principal's and other senior post-holders' emoluments set out in Note 7 to the model financial statements has been amended to show the analysis between:</p>
<ul style="list-style-type: none"> <li>• salaries</li> </ul>
<ul style="list-style-type: none"> <li>• benefits in kind</li> </ul>
<ul style="list-style-type: none"> <li>• pension contributions paid</li> </ul>
<p>5.63 The figures are analysed as above in response to comments from users of Colleges' accounts that disclosure of only the total figures gave a misleading impression of the actual salaries of Principals and senior post-holders.</p>

## Severance payments

5.64 Colleges are required to disclose the amount of severance costs for each year and state whether these were approved by the corporation or a committee established by the corporation for this purpose.

## Governors' expenses

5.65 In certain cases, it is deemed justifiable to compensate governors for the costs of childcare and loss of earnings. The governing body will need to consider each case for an exceptional payment on its merits and be satisfied that there is no remunerative element to it. Colleges are required to disclose full details of any such payments made to governors in their financial statements.

## Note 8 Other Operating Expenses

5.66 A breakdown of information is requested for non-pay expenditure using the broad headings of teaching, non teaching and premises. This analysis assists the **appropriate funding body** in responding to queries on teaching costs versus administration costs.

5.67 Other operating expenses includes materials, consumables, uncapitalised equipment, stationery, travel and subsistence, postage, telephone charges, books, periodicals, copyright licences, advertising, relocation contributions, consultancy fees, and insurance and revenue building works. These expenses should be included in the appropriate expense categories below.

## Teaching costs

5.68 This item will include:

- revenue expenditure on teaching and demonstrating, including teaching materials and consumables, teaching equipment purchase and maintenance, printing and stationery, teaching transport and field trip costs
- any costs associated with teaching-related activities such as training restaurants, hairdressing and beauty salons, as the income from these should be credited to the teaching function
- any advertising, promotional and marketing expenditure charged to teaching departments
- any commercial non-core costs, including the commercial use of teaching facilities (for example sports halls), managing agency administration expenditure, expenditure associated with consultancy projects, or other commercial activities charged to teaching departments
- prison contracts and partnerships.
- library – collections of learning support materials such as books, periodicals, slides and video tapes, and including learning support centres if these are organised under the control of the College library

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<ul style="list-style-type: none"> <li>• computer and resource-based learning centres – the provision of computing facilities for the learner body as a whole. The running costs of administrative computers and charges for the administrative use of a central computer will be shown under Line 4 and not here</li> </ul>
<ul style="list-style-type: none"> <li>• additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme, in order to help an individual learner to complete his or her learning programme. This could include the cost of a diagnostic assessment, specialist support, transport between College sites and materials. Equipment purchases will not be included here</li> </ul>
<ul style="list-style-type: none"> <li>• learner guidance on enrolment</li> </ul>
<ul style="list-style-type: none"> <li>• any non-pay recharge from the Learner Support Fund</li> </ul>
<ul style="list-style-type: none"> <li>• payment to student unions</li> </ul>
<ul style="list-style-type: none"> <li>• recreation services such as non-curricular music, drama and sport</li> </ul>
<ul style="list-style-type: none"> <li>• medical services</li> </ul>
<ul style="list-style-type: none"> <li>• learner services such as careers advisory services, welfare services and specific charges for counselling</li> </ul>
<ul style="list-style-type: none"> <li>• learner transport.</li> </ul>
<ul style="list-style-type: none"> <li>• staff training (including costs of seminars)</li> </ul>
<ul style="list-style-type: none"> <li>• print services</li> </ul>
<ul style="list-style-type: none"> <li>• expenditure on facilities such as theatres and galleries, except those run by teaching departments</li> </ul>
<ul style="list-style-type: none"> <li>• curriculum-development costs</li> </ul>
<ul style="list-style-type: none"> <li>• nursery and work placements.</li> </ul>
<p><b>Non teaching costs</b></p> <p>5.69 This will cover the general running costs of the College and those specifically charged to central services, such as:</p>
<ul style="list-style-type: none"> <li>• revenue costs of administrative computing</li> </ul>
<ul style="list-style-type: none"> <li>• bank charges (excluding interest charges)</li> </ul>
<ul style="list-style-type: none"> <li>• legal and audit fees</li> </ul>
<ul style="list-style-type: none"> <li>• insurance premiums other than buildings insurance, which should be included in premises costs</li> </ul>
<ul style="list-style-type: none"> <li>• travel and subsistence costs of the principalship and administrative staff</li> </ul>

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<ul style="list-style-type: none"><li>recruitment costs, surveyors' fees, postage, telephones, subscriptions and payroll services</li></ul>
<ul style="list-style-type: none"><li>copyright licence, revenue-running costs of payroll, central licences</li></ul>
<ul style="list-style-type: none"><li>administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.</li></ul>
<ul style="list-style-type: none"><li>marketing costs such as overseas learner recruitment costs, publicity and promotion, including course advertising, prospectuses, market research, except where these are charged directly to College teaching departments</li></ul>
<ul style="list-style-type: none"><li>examination costs</li></ul>
<b>Premises</b>
5.70 This will include:
<ul style="list-style-type: none"><li>running costs other than maintenance – for example, heating, lighting, cleaning, caretaking, water charges, security, insurance and national non-domestic rates</li></ul>
<ul style="list-style-type: none"><li>maintenance – short- and long-term maintenance costs, for example, unblocking drains and repairing breakages</li></ul>
<ul style="list-style-type: none"><li>rents and leases – the cost of acquiring space which is not owned by the College, including:</li></ul>
<ul style="list-style-type: none"><li><ul style="list-style-type: none"><li>moving costs, refurbishment costs</li></ul></li></ul>
<ul style="list-style-type: none"><li><ul style="list-style-type: none"><li>minor building improvements and alterations not capitalised.</li></ul></li></ul>
<b>Payments to non-College E2E partners</b>
5.71 As before, where a College considers it necessary for the better understanding of the accounts, then costs associated with for example payments to non-College E2E partners, should be disclosed separately.

## Alternative presentation of results under a property strategy

5.72 Following discussions with sector representatives it has been determined that the interests of the true and fair view for a College's financial statements would also be best served if the *material* items associated with an accommodation strategy such as accelerated depreciation following a revision to the estimated useful economic life of an asset, together with the associated capital grant releases, were presented after the surplus or deficit on continuing operations but **before exceptional items and tax**. These are not impairment losses under FRS 11 and should not be described as such. They do however represent a disclosable override to the provisions of FRS 3.

Paramount within the above relaxation of the I&E presentation and the discussions in Chapter 6 is the desire from **the LSC and its successor organisations** to see a consistency in approach across the sector towards the accounting for capital projects and the presentation of the results. Following a review of options, and using a typical College experience as a benchmark (such as that outlined in 6.114), **the LSC and its successor organisations** believe that accelerated depreciation is the preferred approach to be taken but does not as a result preclude the use of formal impairments under FRS 11, where those can be demonstrated to be applicable. Paragraphs 5.97 to 5.108 below summarise the key aspects of FRS 11.

The alternative presentation of transactions adapts the standard FRS 3 presentation but without breaking the key distinction regarding exceptional items being presented "above the line" unless covered by FRS3.20.

This is for both Colleges' and **the LSC and its successor organisations'** benefit – in the latter case it provides audited figures that will be transferred to the Finance Record and used in the moderation of the financial health score of a College. For the former it will link to narrative explanations of the financial position of the College that will be found in the Operating and Financial Review.

## Exceptional items

5.73 Exceptional items are material items which derive from events or transactions falling within the ordinary activities of the College and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

5.74 The amount of each exceptional item should be disclosed separately by way of a note, or on the face of the income and expenditure account, if that degree of prominence is necessary in order to give a true and fair view.

5.75 The following items, including provisions in respect of such items, should be shown separately on the face of the income and expenditure account **after** the operating surplus or deficit in accordance with FRS 3, paragraph 20:

- surplus or deficits on the sale or termination of an operation
- costs of a fundamental reorganisation or restructuring which have a material effect on the nature and focus of operations
- surplus or deficits on the disposal of fixed assets.

5.76 The equivalent disclosures to those found under the Companies Act in respect of operating lease rentals, auditors' remuneration, profits and losses on disposal of assets should remain as a footnote to the other Operating Expenses disclosures.

## **Note 9 Interest and other finance costs**

5.77 This should be split into Interest on enhanced pension provisions brought forward from the provisions note in the financial statements, and other interest payable. The latter includes interest on long-term loans, bank overdrafts and local authority deficit loans.

5.78 Pension finance costs - the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off. The *net* figure should be included either in endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 of Casterbridge) and the net figure included either in the endowment and investment income note (Note 5 in Casterbridge) or in the interest payable note (Note 9 in Casterbridge).

## **Note 10 Taxation**

5.79 Include any taxation charges. Non-recoverable value-added taxation charges will be allocated to the appropriate expenditure heading.

## **Note 12 Tangible Fixed Assets**

5.80 Land and buildings inherited on incorporation should be capitalised and included in the balance sheet at valuation. Land and buildings acquired after incorporation, whether funded by capital grant or not, should be included in the balance sheet at cost inclusive of any irrecoverable VAT.

5.81 A number of Colleges occupy premises which are owned by other bodies and for whose occupancy no rental payment is required. In some cases there may be no formal agreement to occupy. The notes to the financial statements should disclose the full circumstances in order to give the reader of the financial statements an understanding of the College's position, regardless of whether the College has valued the occupancy as required under the 2007 SORP.

5.82 The inclusion of equipment in the balance sheet requires three matters to be determined:

- definition of equipment
- threshold value(s) at which it should qualify to be capitalised and included in the balance sheet rather than being written off in the income and expenditure account
- basis/bases for depreciation.

5.83 Given the range of Colleges in the sector, it would be inappropriate for the LSC and its successor organisations to seek to constrain Colleges by defining these matters for the sector as a whole. Colleges should determine their own policies in consultation with their financial statements auditors. In setting threshold values for capitalisation, Colleges may wish to consider the impact on their inventory records and fixed assets register. For example, all capitalised equipment will need to be recorded and each year it will need to be depreciated.

5.84 Fixed assets include:

- inherited land and buildings – the value of land and buildings acquired on vesting day
- the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation
- the value of all other land and buildings valued at cost or subsequent revaluation
- the value of equipment acquired on vesting day
- the value of equipment acquired post-vesting day, funded by capital grant and valued at cost
- the value of all other capitalised equipment valued at cost or subsequent revaluation
- investments held as long-term assets and endowment assets valued at the lower of cost or market value
- other fixed assets such as intangible assets, that is, licences, milk quotas and financial instruments

5.85 FRS 15 *Tangible Fixed Assets* addresses the initial measurement, valuation and depreciation of tangible fixed assets (with the exception of investment properties). Its main objective is to ensure that consistent principles are applied by organisations.

### **Initial measurement**

5.86 A tangible fixed asset should initially be measured at its cost. This includes those costs directly attributed to bringing the asset into working condition for its intended use and may include:

- acquisition costs (for example, stamp duty)
- cost of site preparations and clearance
- initial delivery and handling costs
- installation costs
- professional fees

<ul style="list-style-type: none"> <li>labour costs of own employees.</li> </ul>
<p>5.87 If a College wishes to capitalise any labour costs of its own employees, it should consult its financial statements auditor.</p>
<p>5.88 The initial carrying amount of tangible fixed assets received as gifts or donations should be the current value at the date which they are received. FRS 15 recognises that in some cases (particularly in the not-for-profit and charity sectors), an entity receives gifts and donations of tangible fixed assets. The cost of such assets is taken to be the value of the assets at the date which they are received. The valuation of inherited assets on incorporation at 1 April 1993, therefore, represents the <b>initial measurement</b> of these assets and, as such, does not constitute a revaluation, which would need to be kept up to date in accordance with the proposals set out in FRS 15.</p>
<p>5.89 <b>Finance costs</b> that are directly attributable to the construction of tangible fixed assets <b>may</b> be capitalised. Capitalisation of finance costs should cease when substantially all the activities necessary to make the asset ready for use are complete. Where an organisation adopts a policy of capitalisation of finance costs, it should be applied consistently. The total amount of finance costs capitalised in a period should not exceed the total amount of finance costs incurred during that period.</p>
<p>5.90 Where a capital project is delayed significantly then it may <b>not</b> be appropriate to continue to capitalise finance costs. FRS 15 para 27 states “capitalisation of finance costs should be suspended during extended periods in which active development is interrupted”. Colleges should discuss this with their auditors at the earliest opportunity if it is considered to be a relevant issue.</p>
<p>5.91 If the amount recognised when a tangible fixed asset is acquired exceeds its recoverable amount then it should be written down to its recoverable amount (refer to FRS 11 <i>Impairment of Fixed Assets and Goodwill</i>).</p>
<p>5.92 Subsequent expenditure to ensure that the tangible fixed asset maintains its previously assessed standard of performance should be recognised in the income and expenditure account as it is incurred. There are three exceptions to the above rule:</p>
<ul style="list-style-type: none"> <li>where economic benefits are enhanced in excess of the previously assessed standard of performance</li> </ul>
<ul style="list-style-type: none"> <li>where a component that is treated separately for depreciation purposes is replaced or restored</li> </ul>
<ul style="list-style-type: none"> <li>where economic benefits that have previously been reflected in depreciation are restored.</li> </ul>
<p><b>Valuation</b></p> <p>5.93 Specific guidance on the accounting policy for valuations is provided at paragraphs 76 to 89 of the SORP provided at Chapter 3 of this Handbook.</p>

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5.94 Revaluation gains and losses should be reflected in accordance with FRS 3 *Reporting Financial Performance*, as summarised in Table 5.2.

**Table 5.2: Treatment of revaluation gains and losses.**

Gain or loss	Statement of total recognised gains and losses account	Income and expenditure
Gain reversing a loss previously recognised in income and expenditure account		Gain less depreciation would have been charged if loss recognised
Other gains	Gain	
Loss caused by the clear consumption of economic benefits		Loss
Other losses	Loss until carrying amount reaches depreciated historic cost	Balance of loss: unless recoverable amount is greater than revalued amount, then difference goes into the statement of total recognised gains and losses

	Finance Record
<p><b>Depreciation</b></p> <p>5.95 Depreciation should reflect the pattern in which an asset's economic benefits are "consumed". FRS 15 paragraph 2, defines consumption as including <i>"the wearing out, using up or other reduction in the useful economic life of a tangible fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset."</i> The depreciation charge for each accounting period should be recognised as an expense in the income and expenditure account. FRS 15 confirms that subsequent expenditure, which maintains or enhances a tangible fixed asset, does not negate the need to charge depreciation since all tangible fixed assets (except for land) have finite lives.</p>	Schedule 1e:
<p><b>Disclosure</b></p> <p>5.96 FRS 15 requires the following information to be disclosed separately in the financial statements for each class of tangible fixed assets:</p>	

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<ul style="list-style-type: none"> <li>the depreciation methods used</li> </ul>	
<ul style="list-style-type: none"> <li>the useful economic lives or the depreciation rates used</li> </ul>	
<ul style="list-style-type: none"> <li>total depreciation charged for the period, split between any accelerated depreciation and the normal annual charge as appropriate.</li> </ul>	
<ul style="list-style-type: none"> <li>where material, the financial effect of a change during the period in either the estimate of useful economic lives, or the estimate of residual values</li> </ul>	
<ul style="list-style-type: none"> <li>the cost or revalued amount at the beginning of the financial period and at the balance sheet date</li> </ul>	
<ul style="list-style-type: none"> <li>the cumulative amount of provisions for depreciation or impairment at the beginning of the financial period and at the balance sheet date</li> </ul>	
<ul style="list-style-type: none"> <li>a reconciliation of the movements, separately disclosing additions, disposals, revaluations, transfers, depreciation, impairment losses and reversals of impairment losses written back in the financial period</li> </ul>	
<ul style="list-style-type: none"> <li>the net carrying amount at the beginning of the financial period and at the balance sheet date</li> </ul>	
<p><b>Impairment</b></p> <p>5.97 FRS 11 <i>Impairment of Fixed Assets and Goodwill</i> relates to tangible fixed assets and goodwill. Investment properties and most investments are excluded from the scope of the FRS. However, investments in subsidiary undertakings, associates and joint ventures <b>are</b> included within the scope of FRS 11.</p>	
<p>5.98 Impairment is to be measured by comparing the carrying value of a fixed asset with its recoverable amount. The recoverable amount is the higher of the amount that could be obtained from selling the fixed asset (net realisable value), or using the fixed asset (value in use).</p>	
<p>5.99 If it is not possible to test a single fixed asset for impairment because the cash flows on which the calculation is based do not arise from a single asset, then the test may be applied to a group of assets (an income generating unit – IGU), which produces a largely independent income stream. FRS 11 provides guidance on identifying IGUs. In the context of the FE sector, in many cases the College as a whole may be the only IGU. However, IGUs may include:</p>	

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<ul style="list-style-type: none"> <li>• a school or department</li> </ul>	
<ul style="list-style-type: none"> <li>• a site</li> </ul>	
<ul style="list-style-type: none"> <li>• a management centre</li> </ul>	
<ul style="list-style-type: none"> <li>• assets held for disposal.</li> </ul>	
<p>5.100 It is not necessary to carry out an impairment review each year; only if there is an <b>indication</b> that impairment has occurred does a review need to be performed. FRS 11 provides examples of indicators of impairment, including:</p>	
<p>a a current period operating loss in the business in which the fixed asset or goodwill is involved or net cash outflow from the operating activities of that business, combined with either past operating losses or net cash outflows from such operating activities or an expectation of continuing operating losses or net cash outflows from such operating activities</p>	
<p>b a significant decline in a fixed asset's market value during the period</p>	
<p>c evidence of obsolescence or physical damage to the fixed asset</p>	
<p>d a significant adverse change in either the business or the market in which the fixed asset or goodwill is involved, such as the entrance of a major competitor, or a significant change in the statutory or other regulatory environment in which the business operates</p>	
<p>e any "indicator of value" (for example, turnover) used to measure the fair value of a fixed asset on acquisition</p>	
<p>f a commitment by management to undertake a significant reorganisation</p>	
<p>g a major loss of key employees; and</p>	
<p>h a significant increase in market interest rates or other market rates of return that is likely to affect materially the fixed asset's recoverable amount.</p>	
<p>5.101 Examples (c), (d), (e), (f) and (g) above appear to be most relevant to the FE sector. However, a current period historical loss is considered to be a better indicator of impairment for Colleges than a current period operating loss (example (a)). Example (b) is unlikely to apply, since the majority of College buildings are specialised buildings, valued at depreciated replacement cost rather than open market value.</p>	

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<p>5.102 Other examples of impairment indicators specific to the sector would include a significant under-performance against a College's funding agreement with the <b>appropriate funding body</b> (or another major funding source) and a withdrawal from certain areas of provision.</p>	
<p>5.103 Such indicators can exist without having an adverse impact on the measurement of fixed assets. However, if impairment is identified, FRS 11 states that it is appropriate to review the useful economic lives and residual values of the relevant fixed assets, as these may have been affected.</p>	
<p>5.104 In summary, if no indicators of impairment are identified there is no requirement to carry out an impairment review. It should be noted though that the revision of the useful economic life often brought about under an accommodation strategy (discussed further in Chapter 6, section 114) does not necessarily result in an impairment and the consequent charges to the income and expenditure account should not be described as such. It is the preferred approach of the <b>LSC and its successor organisations</b> that Colleges first consider the "accelerated depreciation" approach before considering whether the triggers in FRS 11 are applicable to their circumstances. This is based on the presumption that where Colleges inherited assets on incorporation, the majority also assumed that the buildings elements had a useful economic life of 50 years which in many cases has proved to be an overestimate. The need for an additional write down of the carrying value of those buildings is therefore judged be as a result of a clear consumption of economic benefits and as such should be charged to the Income and Expenditure account in the year in which it is identified.</p>	

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<p>5.105 FRS 11 requires an impairment loss to be recognised in the income and expenditure account <b><i>unless it arises on a previously revalued asset</i></b> and as the above indicates, this does <b><i>not</i></b> include the initial valuation of assets inherited on incorporation.</p> <p>5.106 An impairment loss on a revalued fixed asset should be fully recognised in the income and expenditure account if it is due to a “clear consumption of economic benefits”. Otherwise, the impairment should be recognised in the statement of total recognised gains and losses (STRGL) until the carrying amount falls to the amount of the asset’s depreciated historical cost, and thereafter in the income and expenditure account.</p> <p>5.107 In practice this means that for a typical College that inherited land and buildings and who took advantage of the transitional provisions of FRS 15 by freezing the value in 2000, an impairment not otherwise due to the clear consumption of benefits will be recognised wholly through the STRGL as the historical cost of the assets was nil.</p>	
<p>5.108 Where the recoverable amount of a fixed asset increases as a result of a change in economic conditions or the expected use of the asset, then the reversal of any previous impairment loss will be recognised.</p>	
<p><b>Disposal of fixed assets</b></p> <p>5.109 The profit or loss on disposal of a tangible fixed asset will be accounted for in the income and expenditure account of the period when the disposal occurs. It is the difference between the net sale proceeds and the carrying amount, whether carried at historical cost or valuation. Profit or losses on the disposal of fixed assets should be shown in accordance with paragraph 20 of FRS 3.</p>	
<p>5.110 The accounting treatment for disposal of assets will depend on how the acquisition of those assets was financed and how a College intends to use the proceeds. For these purposes, assets broadly fall into one of three categories:</p>	
<ul style="list-style-type: none"> <li>• inherited by Colleges on incorporation</li> </ul>	
<ul style="list-style-type: none"> <li>• financed by exchequer funds</li> </ul>	
<ul style="list-style-type: none"> <li>• financed from College’s own resources.</li> </ul>	

	Finance Record
<p><b>Property Strategy costs and accounting impacts</b></p> <p>5.111 Chapter 6 (paragraphs 6.97 to 6.125) discusses the accounting treatment for costs incurred on fixed assets, including the impact of a College's property strategy. Following discussions with Colleges and auditors, it has been agreed that a revised presentation of the impact of implementing a property strategy would be appropriate to maintain the true and fair view of the Income and Expenditure account and to this end only, such entries are now accumulated together separate from operational income and expenditure. The Casterbridge College example accounts in Chapter 4 include an illustration of this presentation and the associated notes that might be required to explain it. The illustration includes an expanded Note 31 regarding Major Non Cash transactions (see 5.185 below) to cover this though Colleges may wish to include the information earlier in the Notes and at the foot of the fixed asset note instead.</p> <p>As explained in 5.185, the transactions expected to be included within this alternative presentation, should be unusual costs, not those that would have been incurred in the normal course of events or those that were postponed in anticipation of a successful rebuild.</p>	
<p><b>Financial memorandum</b></p> <p>5.112 The LSC required the board to obtain its consent for land and buildings transactions where the total cost exceeds £1.5 million or 5 per cent of the College's annual revenue, whichever is the greater amount (paragraph 24 of Part 1 of the Financial Memorandum published at November 2006). Where the transaction is a disposal or the renting or leasing of property to a third party, the College should seek to secure the best obtainable value for money.</p>	
<p>5.113 Where the College is proposing to dispose of, or lease or rent, land and buildings which have been acquired by exchequer funds, the College may be required to surrender some or all of the proceeds. This represents a contingent liability for the College and hence an example disclosure of the equivalent amount as a footnote to the fixed assets table in Casterbridge College example accounts has been made. This amount is calculated to represent the unamortised value of exchequer funded capital grants received in respect of assets but should be varied in the light of more appropriate information. Colleges may wish to consider disclosing the contingent liability alongside other contingent liabilities instead if that aids the user of the accounts.</p>	

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5.114 The <b>LSC and its successor organisations</b> would expect Colleges to apply the proceeds of land and buildings sales to the investment in land and buildings. Colleges should seek independent professional advice when disposing of land and buildings.	
5.115 Exchequer funds include any grants from the <b>LSC and its successor organisations</b> and other government bodies. They do not include funds from local education authorities (LEAs): <b><i>inherited assets are not classed as exchequer-funded assets.</i></b> Funds provided for the completion of capital works under the Hunter survey are classed as exchequer funds, as is LSC support provided under the terms of FEFC Circular 96/11 and Circular 95/25.	
5.116 In giving consent to any disposal, the <b>LSC and its successor organisations</b> will consider the potential effect on adequacy and sufficiency of provision. Where there is a potential risk to provision, conditions are likely to be attached to the consent to the disposal. The <b>LSC and its successor organisations</b> would wish to preserve the asset base and may require the proceeds to be retained in a separate bank account until they are applied to replacement facilities.	
<p><b>Accounting treatment</b></p> <p>5.117 For assets fully financed by grant and inherited assets, the historical cost surplus on disposal will generally be equal to the net proceeds.</p>	
5.118 Colleges must disclose, by way of a note, the amount of disposal proceeds that they hold and for what purpose (almost without exception, this will be for reinvestment in land and buildings). The note should form an extension to the existing note on changes in net funds, and might be worded as follows:	
<p><i>“£1.5 million of the funds in current asset investments is derived from the sale of the Westwick site and is held [in a separate ring-fenced bank account]* for reinvestment in the main site. (*where applicable)”</i></p>	

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<p>5.119 The <b>LSC and its successor organisations</b> expect Colleges to track the utilisation of these funds on an ongoing basis. In doing so, Colleges should ensure that any related grant funding is deducted from the eligible expenditure first in determining the amount that has been utilised from the unspent proceeds. For the Westwick site example above, if the College has eligible expenditure of £1 million against which capital grant funding is available of £400,000, then the amount to be deducted from those unspent funds will be £600,000, leaving £900,000 held for reinvestment. Colleges should include within their accounts a reconciliation table showing the movements in such funds where this is material to the users of those accounts.</p>	
<p>5.120 If the planned reinvestment of proceeds is part of a complex funding package including, for example, loan finance, future disposal proceeds and so on, it is recommended that the above disclosure is expanded as necessary in order to ensure that users of the financial statements have a clear view of the underlying funds of the institution.</p> <p><b>In certain limited circumstances, the LSC previously agreed that affected Colleges could offset the restricted funds as above against the costs incurred in an incomplete property strategy, effectively investing those funds in the costs written off. Colleges should have discussed and agreed this accounting treatment with their regional LSC.</b></p>	
<p>5.121 The amount held from previous sales of fixed assets should be shown in the finance record as “Restricted cash and short-term investments from disposal of fixed assets and held for future fixed-asset acquisitions” until the College uses the proceeds on future fixed asset acquisitions <b>(or has set them off against property strategy costs as above).</b></p>	Table 2:
<p><b>Accounting for leases</b></p> <p>5.122 A finance lease should be recorded in the lessee’s balance sheet as an asset and an obligation to pay future rentals. Rentals payable should be apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable. The total finance charge under a finance lease should be allocated to accounting periods during the lease term, so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period, or a reasonable approximation thereof. Colleges may use any of the three methods of achieving this, which are given in the guidance notes to SSAP 21 <i>Accounting for Leases and Hire Purchase Contracts</i>.</p>	Table 2:

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5.123 An asset leased under a finance lease will be depreciated over the shorter of the lease period or its useful economic life. In the case of a hire purchase contract, which has the characteristics of a finance lease, the asset should be depreciated over its useful life.	
5.124 The rental under an operating lease should be charged on a straight-line basis over the lease term, even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate. The accounting for inherited leases should follow the recommendations set out in this and preceding paragraphs.	
5.125 Under SSAP 21, the accounting treatment adopted for a lease will depend on whether it is a finance lease or an operating lease. A finance lease is defined as one which transfers to the lessee substantially all the risks and rewards of ownership; all other leases are classified as operating leases.	
5.126 The underlying concept of SSAP 21 is that the method of accounting for a lease should reflect the commercial substance of the arrangement and the relationship between the parties concerned. A finance lease creates a set of circumstances that, from the lessee's point of view, is in substance similar to the outright purchase of an asset financed by borrowing from the lessor. As a result, the recommended accounting practice is that a finance lease should be recorded in the lessee's balance sheet as an asset and an obligation to pay future rentals.	
<p><b>Leasehold property</b></p> <p>5.127 Institutions should disclose the length of any leases that they hold for leasehold property included in fixed assets.</p>	
<p><b>Milk quotas</b></p> <p>5.128 The preferred treatment is to show milk quotas in the accounts at cost and depreciated over their useful economic life. In most cases cost will be nil, since the quotas were inherited from the College's LA. In practice, therefore, this may have little impact on a College's accounts, other than disclosing that the College has an asset. Where a cost does exist, the College should treat it as an <b>intangible</b> asset and disclose it separately from tangible fixed assets.</p>	

	Finance Record
<p><b>Note 14 Endowment Assets</b></p> <p>5.129 An analysis between listed and unlisted investments should be provided where relevant. The presentation of endowment asset investments in the balance sheet as a separate heading between fixed and current assets may require a true and fair override to depart from the statutory balance sheet formats if the institution is a limited company.</p>	Not in finance record
<p><b>Current Assets</b></p> <p>5.130 The notes to Colleges' financial statements should provide further information about each material current asset shown on the balance sheet. Detailed guidance on key disclosures is set out below.</p>	Table 2
<p><b>Stocks</b></p> <p>5.131 The value of stocks, such as farm stocks, should be brought into account at the lower of cost and net realisable value in accordance with the principles established by SSAP 9 <i>Stocks and Long-term Contracts</i>. If goods are sold subject to reservation of title, the disclosures set out in the Council of the Institute of Chartered Accountants' 1996 accounting recommendation <i>Accounting for Goods Sold Subject to Reservation of Title</i> should be followed.</p>	
<p><b>Long-term debtors</b></p> <p>5.132 Debtors due after more than one year should be disclosed in the notes to the accounts in accordance with UITF Abstract 4 <i>Presentation of Long-term Debtors in Current Assets</i>, unless they are sufficiently material as to require disclosure on the face of the balance sheet.</p>	
<p><b>Current asset investments</b></p> <p>5.133 Current asset investments should be included in the balance sheet at the lower of their original cost and net realisable value. This category may include fixed assets held for resale, where an estates strategy is in progress. Where significant, the category of "non current assets held for resale" should be disclosed on the face of the balance sheet and an appropriate analysis included within the notes.</p>	

	Finance Record
<p><b>Trustee Investment Act 1961</b></p> <p>5.134 Colleges are required to make investments in accordance with the Trustee Investment Act 1961 (TIA 1961). Under the TIA 1961, charities were permitted to divide their investments equally between wider range and narrower range investments (if they choose to invest in wider range investments at all).</p>	
<p>5.135 Under sections 70 and 71 of the Charities Act 1993, the Secretary of State was empowered to regulate in order to vary the proportion and types of investments which charities may make. The Charities (Trustee Investment Act 1961) Order 1995 (SI 1995 No. 1092) allows the value of the wider range part of the investment fund to be three times the value of the narrower range fund.</p>	
<p><b>Trustee Act 2000</b></p> <p>5.136 Under section 19(4)(d) of the Further and Higher Education Act 1992, Colleges have the power to invest any sums of money not immediately required for carrying out their activities.</p>	
<p>5.137 Colleges have been advised that in making investments they were subject to the provisions of the Trustee Investments Act 1961.</p>	
<p>5.138 The Trustee Act 2000 has amended the Trustee Investments Act 1961 and the amendments will apply to Colleges who obtained powers to make investments after 1961.</p>	
<p>5.139 The amendments include a new general power of investment, permitting any kind of investment (excluding land) which trustees would be allowed to make if they were the absolute owners of those funds. Power to invest in land is effectively given in a separate section.</p>	
<p>5.140 In making investments, Colleges should have regard to the financial memorandum and any other terms and conditions attached to specific grants.</p>	
<p><b>Related party transactions</b></p> <p>5.141 The 2007 SORP (paragraph 231) overrides the exemption in FRS 8 <i>Related Party Disclosures</i> with regard to the disclosure of transactions with government departments and their sponsored bodies. For this reason the value of transactions with the <b>LSC and its successor organisations</b> in particular, are disclosed on the face of the income and expenditure account, in the balance sheet (for deferred capital grants) and in the relevant notes to the accounts. This latter part applies to the amounts due to and from the <b>LSC and its successor organisations</b> at the year end with the result that the debtors note should include a specific line to that effect.</p>	

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<p><b>Liabilities - Notes 16 and 17</b></p> <p>5.142 The notes to Colleges' financial statements should provide further information about each material liability shown on the balance sheet. In determining the analysis of liabilities between current and non current liabilities, Colleges should give due consideration to the conditions existing at the balance sheet date. For example, it is not unusual for a College to have a technical breach of the covenants concerning an external loan as at the balance sheet date, through perhaps interest cover being insufficient or two consecutive years of a deficit result. Under FRS 25, these technical breaches at the balance sheet date mean that the loan is now repayable on demand and should <b>not</b> be allocated between amounts falling due within one year and those falling due outside one year. All amounts due under the affected loan arrangements will be treated as current liabilities in this instance.</p>	Table 2
<p>5.143 Where appropriate Colleges should disclose the analysis of bank and other borrowings, using the five year analysis tables provided as an example in Note 18</p>	
<p><b>Note 19 Provisions for liabilities</b></p> <p>5.144 This note shows combined figures for the group and the College on the assumption that all provisions relate solely to the College.</p>	Table 2
<p>5.145 Under FRS 12 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, a provision should only be recognised when "an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation".</p>	
<p>5.146 Provisions can be distinguished from other liabilities such as trade creditors and accruals, because there is uncertainty about the timing or amount of the future expenditure required in settlement.</p>	
<p>5.147 Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.</p>	
<p>5.148 A provision should be used only for expenditures for which the provision was originally recognised.</p>	

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5.149 A restructuring provision should be made only where there is a legal or constructive obligation. A constructive obligation is present only when a College has drawn up a detailed formal plan and has announced, or begun to implement, that plan prior to the balance sheet date. In practice, a constructive obligation would exist, for example, once a written offer had been made to individuals.	
5.150 A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:	
<ul style="list-style-type: none"> <li>necessarily entailed by the restructuring; and</li> </ul>	
<ul style="list-style-type: none"> <li>not associated with the ongoing activities of the entity.</li> </ul>	
5.151 A restructuring provision does not include such costs as:	
<ul style="list-style-type: none"> <li>retraining or relocating continuing staff</li> </ul>	
<ul style="list-style-type: none"> <li>marketing; or</li> </ul>	
<ul style="list-style-type: none"> <li>investment in new systems and distribution networks.</li> </ul>	
5.152 These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognised on the same basis as if they had arisen independently of a restructuring.	
<b>Disclosure</b>	
5.153 For each class of provision, an entity should disclose:	
<ul style="list-style-type: none"> <li>the carrying amount at the beginning and end of the period</li> </ul>	
<ul style="list-style-type: none"> <li>additional provisions made in the period, including increases to existing provisions</li> </ul>	
<ul style="list-style-type: none"> <li>amounts used (that is, incurred and charged against the provision) during the period</li> </ul>	
<ul style="list-style-type: none"> <li>unused amounts reversed during the period</li> </ul>	
<ul style="list-style-type: none"> <li>the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.</li> </ul>	
5.154 Comparative information is not required.	

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	Finance Record
5.155 An entity should disclose the following for each class of provision:	
<ul style="list-style-type: none"> <li>a brief description of the nature of the obligation, and the expected timing of any resulting transfers of economic benefits</li> </ul>	
<ul style="list-style-type: none"> <li>an indication of the uncertainties about the amount or timing of those transfers of economic benefits. Where necessary, in order to provide adequate information an entity should disclose the major assumptions made concerning future events</li> </ul>	
<ul style="list-style-type: none"> <li>the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.</li> </ul>	
<p><b>Pension provisions</b></p> <p>5.156 FRS 12 <i>Provisions and Contingencies</i> requires that provisions for staffing reorganisations should be recognised when – and only when – the entity is demonstrably committed to the reorganisation. An entity is demonstrably committed when it has a detailed plan for, and cannot realistically withdraw from, the reorganisation.</p>	
5.157 Where a decision has been made that an employee will take early voluntary retirement in one accounting period but that the individual will not cease employment until the following period, the charge to the income and expenditure account for any pension provision or capital sum payable to the relevant pension scheme should only be made once a written offer has been made to the individual concerned.	
<p><b>Enhanced pensions provisions</b></p> <p>5.158 Enhancements of premature retirement compensation can give rise to two types of additional cost:</p>	Table 2
<ul style="list-style-type: none"> <li>an increase in a member of staff's lump sum payment on retirement</li> </ul>	
<ul style="list-style-type: none"> <li>an increase in their annual pension.</li> </ul>	
5.159 It is not possible under the TPS or the Local Government Superannuation Scheme (LGSS) to enhance an individual's service so as to provide an enhanced lump sum without at the same time enhancing the annual pension.	

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<p>5.160 The actual cost of any enhanced ongoing pension to a former member of staff is paid by a College annually. However, it is a requirement of FRS 17 <i>Retirement Benefits</i> that an estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff will need to be made and charged in full to the College's income and expenditure account in the year that the member of staff retires. (This follows the principle that the future costs to a College of an individual's pension enhancement should be fully accounted for during the period that the College benefits from the employee's services.) In subsequent years a provision needs to be made in the balance sheet.</p>	
<p>5.161 Colleges must use the tables supplied in calculating any provision for enhanced pension. <b>The use of these tables is mandatory unless a more accurate estimate can be obtained from the College's actuaries.</b> The tables were updated in 2009 for more recent mortality tables amongst other things and further updated versions for market indices will be issued shortly after the 31<sup>st</sup> July 2010 when these are known.</p>	
<p>5.162 In some instances, Colleges may find that the calculation of liabilities for enhanced pensions has been inextricably bound into the overall FRS 17 valuation. As the termination benefit for enhanced pensions has been calculated on a close approximation to that under FRS 17 it is unlikely that a material difference will arise, either in the level of the provision or in the amounts charged through the STRGL. The remaining differences will be of classification within the balance sheet only and not affect the net position of the College. It is likely that it would be impractical to obtain the information required to separate out the two provisions adequately and so the totals from the actuarial report should continue to be used. Colleges should however note that under FRS 17 Revised, the element of the provision relating to unfunded liabilities (which is what the enhanced pensions effectively are), will need to be analysed out in the notes to the accounts.</p>	
<p><b>Charge for the enhanced pension provision to the income and expenditure account</b></p> <p>5.163 The <b>LSC and its successor organisations</b> would expect the charge for any movement in the College's enhanced pension provision to be charged to:</p>	
<ul style="list-style-type: none"> <li>• staff costs – staff restructuring: enhanced pension charge</li> </ul>	Schedule 1d
<ul style="list-style-type: none"> <li>• non-pay expenditure – interest on enhanced pension provision.</li> </ul>	Schedule 1e

	Finance Record
<ul style="list-style-type: none"> <li>statement of recognised gains and losses - actuarial gain/(loss)</li> </ul>	Schedule 2
5.164 If the amount charged to the income and expenditure account is material, then the College should separately disclose the “exceptional” amount on the face of the income and expenditure account.	
<p><b>Note 20 Deferred Capital Grants</b></p> <p><b>Accounting for grants</b></p> <p>5.165 Any grants received from public funds (for example, from the LSC or HEFCE) should be accounted for in accordance with SSAP 4 <i>Accounting for Government Grants</i>. This means that the income should be matched to the relevant expenditure. Any capital grant received should be credited to a deferred capital grant account and not deducted from the purchase price of the assets concerned. The amount of the grant should be credited to the income and expenditure account over the useful economic life of the related asset, on a basis consistent with the depreciation policy. If a capital grant is received before the purchase of the relevant asset, then the grant should be held in payments on account until spent.</p>	
5.166 Where the conditions attached to an award of a grant state that the grant should be directed towards capital expenditure, it should be treated as a deferred capital grant.	
5.167 Parallel to this, the 2007 SORP considers (at paragraph 155) the accounting treatment of donated assets and draws the distinction between land and between buildings in determining the accounting entries. Specifically the value of donated land is stated to be credited directly to income on receipt rather than to a balance sheet reserve such as Deferred Capital Grants. Colleges should ensure that these principles have been applied to capital grant funding such that any grants received in respect of <b>land</b> are credited to the Income and Expenditure account rather than being held indefinitely on the balance sheet within deferred capital grants. This may require a prior year adjustment to correct the position and Colleges should consult with their auditors as to the adjustments required.	

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<p><b>Capital funding from recurrent funds</b></p> <p>5.168 Up to 31 July 2001 Colleges were required to spend at least 2 per cent of their funding allocation for capital purposes. This element of the funding would be matched against the related purchase. Thus, if the grant was spent on an asset which was capitalised, the grant would be treated as a deferred capital grant and be released to the income and expenditure account over the life of the relevant asset. If the grant was spent for capital purposes but not on an item that would normally be capitalised (for example on an item costing less than the institution's capitalisation limit or certain minor works), it would be released to the income and expenditure account from the deferred capital grant immediately.</p>	
<p>5.169 From 1 August 2001 the LSC no longer required institutions to spend an amount of their funding allocation for capital purposes. The amount of the funding allocation that an institution receives should be charged to the income and expenditure account. If an institution wishes to continue to allocate an amount of their funding allocation for capital purposes then this should be funded from their cash reserves. The accounting treatment should be as in Table 5.3 below.</p>	

**Table 5.3: Accounting treatment of allocations of capital funding.**

	Debit	Credit
Total main funding allocation received from LSC	Bank account	Income and expenditure account
Expenditure funded from allocation and capitalised	Fixed assets	Bank account
Expenditure funded from allocation and not capitalised	Income and expenditure account	Bank account

	Finance Record
<p>5.170 Whether the expenditure has been capitalised or not, the accounting treatment for the recurrent grant income from the <b>LSC and its successor organisations</b> remains the same, that is, the income should be charged direct to the income and expenditure account.</p>	
<p><b>Arrangements for capital support for major works up to March 1999</b></p> <p>5.171 Up to March 1999, Colleges could apply to the FEFC for financial support towards capital projects costing more than £100,000. If a College's application was supported, the first year's support was calculated on the basis of a notional annuity loan over 15 years at a notional rate of interest determined from time to time by the FEFC. From the second year onwards, the annual payments would decline in line with the core percentage (currently 90 per cent of a College's main funding allocation for the previous year). The majority of Colleges opted to commute these payments to a lump sum in 2002. For the remaining Colleges. The <b>LSC and its successor organisations</b> does not have the power to guarantee future funding streams to Colleges and it cannot guarantee that this funding, nor any other funding from the <b>LSC and its successor organisations</b>, will continue after the current year. This means that Colleges should <b>not</b> include any debtor due after more than one year on their balance sheets in respect of <b>appropriate funding body support unless otherwise directed</b>.</p>	
<p>5.172 Capital support was frequently referred to as loan support, as it was calculated by reference to a notional loan. There is no requirement for Colleges to borrow if they can finance projects from their own funds.</p>	

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<p>5.173 It has been determined that this support was partly a revenue grant and partly a capital grant. The revenue element may be released directly to the income and expenditure account each year. The capital element should be taken to the deferred capital grant account. The total capital support, which the College expects to receive over the 15-year notional loan period, should be assessed. This sum should then be taken to the income and expenditure account on a straight-line basis over the life of the asset. It would be prudent to reassess the anticipated total receipt each year.</p>	
<p>5.174 Where the grant is used to contribute to lease payments it should be released to the income and expenditure account, in the appropriate proportions, over the lease period. Lease payments should be allocated between capital and finance charges in accordance with SSAP 21.</p>	
<p><b>Arrangements for capital support for major works from April 1999</b></p> <p>5.175 Since April 1999 there have been new arrangements under which Colleges could apply for <b>funding body</b> support towards capital projects costing more than £100,000. The amount of support available was originally 35 per cent of eligible project costs, which was usually payable over three years following practical completion. This assumed starting point of 35% was modified by Circular 03/13 in 2003/04 such that grants were assessed more strictly against affordability, with a minimum level of grant support of 10%. The Capital Handbook November 2006 reinforces this with emphasis on agreeing an appropriate starting point with the regional PFM team and a financial plan that returns the College to financial health group A or a strong group B by the third year after substantive completion of the project.</p>	
<p>5.176 The LSC support should be treated by Colleges as a capital grant and the rules of SSAP 4 would apply.</p>	
<p>5.177 It may be appropriate for Colleges to set up debtor accounts depending upon the completeness of the project. For example, if a College's capital project is 50 per cent complete, then 50 per cent of the grant would be accounted for as a debtor, if no capital grant had been paid by the LSC <b>and its successor organisations</b>.</p>	
<p>5.178 Capital grant consent letters to Colleges should be checked by financial statements auditors for compliance with the financial memorandum.</p>	

	Finance Record
<p><b>5.179 Consent Only Projects</b></p> <p>Colleges will need to seek the consent of their main funding body if the cost of the project or the level of borrowing is greater than the thresholds laid down by the college's respective funding body. Colleges are advised to discuss their plans for consent only projects with their funding body.</p>	
<p><b>One-off grant</b></p> <p>5.180 Funding body support for major works may exceptionally be given by means of a one-off grant payment. This sum should be treated as a deferred capital grant and be released to the income and expenditure account over the life of the asset.</p>	
<p><b>Significant donations used for capital purposes</b></p> <p>5.181 A number of Colleges have been successful in gaining donations from charitable and commercial bodies, for example through Gift Aid or lottery funding. Colleges should account for significant donations used for capital purposes in accordance with SSAP 4. General donations for non-specified purposes should be credited directly to the income and expenditure account. The 2007 SORP contains additional guidance in this respect and should be reviewed accordingly to determine the correct accounting treatment and disclosure.</p>	
<p><b>Note 21 Endowments</b></p> <p>5.182 This note shows combined figures for the Group and the College because it is thought unlikely there will be endowments within a subsidiary. Where material, the aggregate accumulated unspent income held within specific endowments should be disclosed separately from the capital balances of specific endowments.</p>	Not in finance record
<p>5.183 The 2007 SORP introduced new terminology concerning endowments and charitable donations (paragraphs 132 to 158 inclusive) and Colleges should refer to the detailed guidance contained therein when drafting their 2009 accounts.</p>	
<p><b>Note 22 Revaluation Reserves</b></p> <p>5.184 The amount by which tangible fixed assets were revalued, adjusted for sums released to the income and expenditure account and unrealised gains and losses. Where material to the understanding of the accounts, any amounts released relating to accelerated depreciation charges (see Chapter 6.114) should be disclosed separately within the note.</p>	Table 2

	Finance Record
<p><b>Other Reserves</b></p> <p><b>Restricted reserves</b></p> <p>5.185 The value of funds earmarked for specific purposes that cannot be used at the discretion of the governors for any other purpose – for example, charitable bequests. The LSC and its successor organisations would now only expect to see a restricted reserve in extremely limited circumstances; for example, in respect of a prize fund.</p>	Table 2
<p><b>Note 31 Major Non Cash Transactions</b></p> <p>5.186 As noted above, Colleges may find it beneficial to separately present the material entries regarding the implementation of a property strategy. These entries might include:</p> <ul style="list-style-type: none"> <li>• accelerated depreciation charges</li> <li>• accelerated releases of Deferred capital grants associated with that depreciation</li> <li>• professional fees not capitalised associated with a major refocus of the strategy</li> <li>• LSC fee support including the relevant part of the Additional Capital Support funds distributed to certain Colleges in the early part of the calendar year 2010.</li> <li>• the write off of fees previously capitalised but now deemed no longer to have an enduring benefit to the strategy.</li> </ul> <p>These items are not “exceptional” as defined by FRS 3.20 and so are still included before the operating result of the College. This is as an alternative to including them within the normal accounts heading and within the relevant note to that heading.</p> <p>Note 31 to the Casterbridge College accounts has been expanded to include an illustration of the disclosures that might be appropriate here. Colleges may wish to include the relevant narrative at the foot of the fixed asset table instead though.</p> <p>It should be noted that the purpose of this alternative presentation is to draw out the transactions associated with an ongoing property strategy. It is not intended that these include the regular revision of a property strategy, planned maintenance costs, additional maintenance costs where a delayed strategy has meant that the originally deferred costs now become essential, or similar items.</p>	

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<p><b>Note 32 Pensions and Similar Obligations</b></p> <p><b>Teachers' Pension Scheme</b></p> <p>5.187 The TPS is a statutory, contributory, final salary scheme administered by the Teachers' Pension Agency, an executive agency of the DfES. The regulations under which the TPS operates are the Teachers' Superannuation (Consolidated) Regulations 1997, as amended by the Teachers' Pensions (Amendment) Regulations 1999 and the Teachers' Pensions (Amendment) Regulations 2002. These Regulations apply to teachers in schools and other educational establishments in England and Wales, which are maintained by LEAs, and also to teachers in many independent schools and establishments of further and higher education. Teachers are able to opt out of the TPS.</p>	
<p>5.188 The TPS is an unfunded scheme with contributions made on a pay-as-you-go basis.</p>	
<p><b>Valuation of the Teachers' Pension Scheme</b></p> <p>5.189 At least every four years, the Government Actuary, using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The cost of pensions increases is excluded from the valuation and, consequently, neither teachers nor their employers contribute to this added value.</p>	
<p>5.190 The basis of the notional fund in which the TPS is invested has changed from 1 April 1996. After that date, the cost of pensions increases are charged to the fund and the fund is deemed to be invested in line with the practice of large real pension funds. Credits are added to the notional fund to match the cost of increases arising from past service to 1 April 1991 and supplementary credits for future years.</p>	
<p>5.191 For members of the TPS taking early retirement on or after 1 September 1997, part of the mandatory pension has fallen to the employer to fund. This sum should be treated in the same way as enhanced pensions under FRS 17.</p>	
<p><b>Local Government Pension Scheme (LGPS)</b></p> <p>5.192 The impacts of FRS 17 on the disclosures required for the LGPS are set out in Chapter 6, paragraphs 6.127 to 6.171.</p>	

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<p><b>Note 33 Post-balance Sheet Events</b></p> <p>5.193 A post-balance sheet event is an event that occurs between the balance sheet date and the date on which the financial statements are approved (as defined in FRS 21 <i>Events after the Balance Sheet Date</i>). Post-balance sheet events will be disclosed in the notes to the financial statements, in addition to disclosure in the members' report. The financial impact of post-balance sheet events will also be disclosed where it is known or can be estimated.</p>	
<p><b>Note 36 Contingent Liabilities</b></p> <p>5.194 A contingent liability is defined in FRS 12 as follows:</p> <p>a a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or</p> <ul style="list-style-type: none"> <li>• the amount of the obligation cannot be measured with sufficient reliability.</li> </ul>	
<p>5.195 Contingent liabilities are not recognised as liabilities because they are either:</p> <ul style="list-style-type: none"> <li>• possible obligations, as it has yet to be confirmed whether the entity has an obligation that could lead to a transfer of economic benefits; or</li> <li>• present obligations that do not meet the recognition criteria in FRS 12, because it is either not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.</li> </ul>	
<p>5.196 A material contingent loss not accrued should be disclosed, except where the possibility of loss is remote. If the possibility of loss becomes probable, a provision should be recognised.</p>	
<p>5.197 In respect of each contingency which is required to be disclosed, the following information should be stated by way of notes in financial statements:</p> <ul style="list-style-type: none"> <li>• the nature of the contingency</li> <li>• the uncertainties which are expected to affect the amount or timing of the ultimate outcome</li> </ul>	

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<ul style="list-style-type: none"> <li>a prudent estimate of the financial effect, made at the date on which the financial statements are approved by the members of the corporation; or a statement that it is not practicable to make such an estimate</li> </ul>	
<ul style="list-style-type: none"> <li>the possibility of any reimbursement.</li> </ul>	
<p>5.198 A contingent asset is defined in FRS 12 as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.</p>	
<p>5.199 Contingent assets should not be recognised in financial statements until the realisation is virtually certain and the asset is therefore no longer "contingent". Details of contingent assets which are not virtually certain will only be disclosed where an inflow of economic benefits is probable.</p>	
<p><b>Note 37 Related Party Disclosures</b></p> <p>5.200 FRS 8 <i>Related Party Disclosures</i> requires the disclosure of information on related party transactions.</p>	
<p>5.201 Two or more parties are related parties when at any time during the financial period:</p>	
<ul style="list-style-type: none"> <li>one party has direct or indirect control of the other party; or</li> </ul>	
<ul style="list-style-type: none"> <li>the parties are subject to common control from the same source; or</li> </ul>	
<ul style="list-style-type: none"> <li>one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or</li> </ul>	
<ul style="list-style-type: none"> <li>the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.</li> </ul>	
<p>5.202 FRS 8 states that the following are deemed to be related parties to a reporting entity:</p>	
<ul style="list-style-type: none"> <li>subsidiary undertakings</li> </ul>	
<ul style="list-style-type: none"> <li>its associates and joint ventures</li> </ul>	
<ul style="list-style-type: none"> <li>the investor or venturer in respect of which the reporting entity is an associate or joint venture</li> </ul>	

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<ul style="list-style-type: none"> <li>• directors of the reporting entity</li> </ul>	
<ul style="list-style-type: none"> <li>• pension funds for the benefit of employees of the reporting entity, or of any entity that is a related party of the reporting entity.</li> </ul>	
<p>5.203 The following are presumed to be related parties (unless it can be demonstrated that neither party has influenced the financial and operating policies of the other):</p>	
<ul style="list-style-type: none"> <li>• the key management of the reporting entity and the key management of its parent undertaking or undertakings</li> </ul>	
<ul style="list-style-type: none"> <li>• each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity</li> </ul>	
<ul style="list-style-type: none"> <li>• an entity managing or managed by the reporting entity under a management contract.</li> </ul>	
<p>5.204 Following the definitions above the members of the corporation would be deemed to be related parties to the College, members of the senior management team and any other staff with significant involvement with major contracts (such as estate manager, or procurements officer) would be presumed to be related parties.</p>	
<p>5.205 Members of the corporation may have an interest in businesses with which the College trades. It will need to be considered for each case whether that individual can influence the actions of the business to the extent that either the College or the business has subordinated its own separate interests.</p>	
<p>5.206 FRS 8 does not require disclosure of the relationship and transactions between the reporting entity and the parties listed below, simply as a result of their role as:</p>	
<ul style="list-style-type: none"> <li>• providers of finance in the course of their business in that regard</li> </ul>	
<ul style="list-style-type: none"> <li>• utility companies</li> </ul>	
<ul style="list-style-type: none"> <li>• government departments and their sponsored bodies.</li> </ul>	
<p>5.207 The 2007 SORP does however, override this with a requirement to disclose Funding Council grants. The information contained within Note 2, Note 15 and Note 16 should cover this and therefore, further transactions with the <b>LSC and its successor organisations</b> do not need to be disclosed under the requirements of FRS 8.</p>	

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<p><b>Note 39 Amounts Disbursed as Agent</b></p> <p><b>Learner Support Funds</b></p> <p>5.208 Learner support funds should be excluded from income and expenditure and disclosed only as a note, as illustrated in the Casterbridge College model financial statements. Further details on the treatment of agency costs such as learner support funds are provided in paragraphs 6.45 to 6.67 of this Handbook.</p>	Schedule 1c: Line 18