Deloitte.

Drowning by numbers
Surveying financial statements in annual reports

Contents

1. Executive summary	1
2. Survey objectives	2
3. Overview of the financial statements	3
4. Income statement – results from operating activities	7
5. Income statement – other items	12
6. Reporting changes in equity	15
7. Cash flow statement	17
8. Balance sheet	19
9. Accounting policies	22
10. Segmental analysis	27
11. Goodwill and intangibles	31
12. Financial instruments	36
13. Provisions	39
14. Share based payments, retirement benefits and related parties	41
15. Subsidiaries, joint ventures and business combinations	45
16. Investment trusts	50
Appendix 1 – Glossary of terms and abbreviations	55
How can we help?	57
Related publications	58

1. Executive summary

Every year in the life of an accountancy firm's technical department sees a new excitement or, as it is more colloquially known, that wretched question. 2010 has been true to form. That question has been "is a third balance sheet and related notes really required in the following situation?". The International Accounting Standards Board had compromised (sorry, responded to respondents' concern over unnecessarily increased disclosures or over impracticality, excess and cost) by watering down its original 2006 proposal of three balance sheets for all. Now, a third balance sheet is needed only when there have been retrospective applications or restatement, or reclassification. This has given rise to many questions.

After all that angst, 9% of corporates, in this year's survey of financial statements, have given three balance sheets. That includes those who now use the term "statement of financial position". Are four words better than two? Are all those numbers in the three balance sheets, with an average of 31 lines per balance sheet, together with related notes, better than the two which have been sufficient for many decades? Is it better to drown in the sea of numbers or to take action in the fight for clear communication?

The purpose of this survey is not to debate the merits of particular disclosures. It is to report on current reporting practices among corporates and investment trusts. Section 16 reports on the latter group. For listed companies other than investment trusts, key findings include:

- 45% of parent company financial statements continue to use UK GAAP some five years after their consolidated financial statements have moved to use IFRS. These will, under the ASB's current proposals, have to convert to IFRS from 2013/14;

- accounting policies are on average six pages long and subsume 13% (2009: 12%) of the financial statements. Many of these policies merely repeat the requirements of the accounting standards;

- almost all (95%) companies disclose the list of accounting standards and interpretations in issue but not yet effective. Only in 13% of cases are these deemed to have a potentially material impact;

- while the notes on critical judgments include many common items, such as on goodwill and pensions, it is encouraging that company-specific items which could not be easily categorised were the most common category; and

- in the year in which the new accounting standard, IFRS 8, on operating segments had to be adopted, the impact was an increase in the average number of reporting segments from three in 2009 to four this year.

Some of the above, and other findings in the survey, provide clues of areas where disclosure requirements could be eased. For example, 34% of corporates reported that they had spotted the new IFRS 8 requirement to report reliance on major customers. But a half of these reported that they had none. Did they do so simply to pre-empt a question from the Financial Reporting Review Panel?

There is much talk on the disclosure burden imposed by accounting requirements. On the horizon are a suite of new standards on topics such as revenue, leasing, financial instruments, consolidation and insurance contracts. Now is a good time for action so that all are not drowned by numbers when the next wave of new standards hits.

Is it better to drown in the sea of numbers or to take action in the fight for clear communication?

2. Survey objectives

The main objectives of the survey were to discover:

- the level of variety in presentation of the primary statements in listed companies' financial statements;
- which critical judgements and key estimations directors consider to be the most significant when preparing their financial statements;
- how compliance with disclosure requirements and the accounting policy choices made under IFRSs varied;
- how many companies chose to adopt IFRSs for the parent only financial statements and how audit opinions varied; and
- how the results compared with similar surveys performed in previous years.

The annual reports of 130 listed companies were surveyed to determine current practice. The sample of companies is the same as that used for Deloitte's recent publication which surveyed narrative reporting. Consistent with the approach adopted in Deloitte's 2009 surveys, the companies were split into two groups being 30 investment trusts and 100 other companies. Investment trusts are those companies classified by the London Stock Exchange as non-equity or equity investment instruments (this excludes real estate investment trusts). They have been treated as a separate population due to their specialised nature and the particular needs of their investors.

The sample is, as far as possible, consistent with that used in last year's survey. As a result of takeovers and mergers over the last twelve months, the sample could not be identical. Replacements and additional reports were selected evenly and at random from three categories being those within the top 350 companies by market capitalisation at 30 June 2010, those in the smallest 350 by market capitalisation, and those that fall in between those categories (the 'middle' group). Furthermore, because of clustering within the top 350 companies' category, five companies were replaced with the new ones chosen at random. The comparatives for 2009 were then reworked to use the same companies in both years in that category.

The annual reports used were those most recently available and published in the period from 1 August 2009 to 31 July 2010.

As noted above the findings for investment trusts are analysed separately within this publication. Sections 3 to 15 summarise the results for the 100 companies excluding investment trusts and section 16 reviews the 30 investment trusts.

This publication is structured in a similar way to that of most financial statements, starting with analysis of the primary statements, followed by the accounting policies and then the notes.

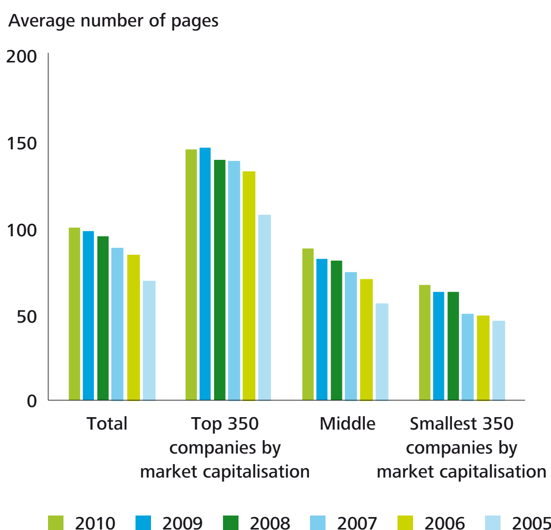
3. Overview of the financial statements*

- Annual reports average 101 pages, 44% longer than in 2005.
- Financial statements therein range from 18 to 137 pages.
- Five auditors' reports contain an emphasis of matter, of which four relate to going concern. In 2009 there were nine auditors' reports with an emphasis of matter of which seven related to going concern.

Pages 12 and 13 of the 2010 Deloitte survey of narrative reporting in annual reports, "Swimming in words", discusses in detail the length of the annual report. This publication covers the overall length and then considers the financial statements therein.

Figure 1 below sets out the results in total by category for the six most recent survey periods.

Figure 1. What is the overall length of the annual report?

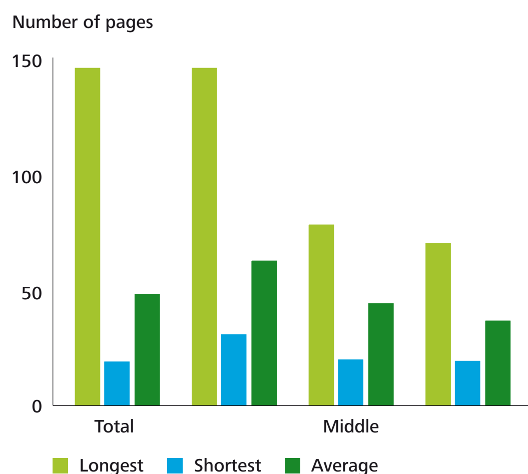


As a percentage of the annual report as a whole, the financial statements varied from 21% to 71%. The top 350 companies have continued to reduce the proportion of the annual report dedicated to the financial statements, with the financial statements representing an average of 43% (2009: 44%) of the annual report compared to an average of 49% (2009: 49%) across the sample. In comparison, the smallest 350 companies had an average of 54% (2009: 54%) of the annual report taken up by financial statements. While the proportions have remained constant, the overall length has increased. This is as expected as the changes in the accounting standards in the current period have affected the type of information disclosed, with, for example, the new accounting standard, IFRS 8 on operating segments, increasing disclosures for some companies.

The annual reports of 130 listed companies were surveyed to determine current practice.

* This section analyses the findings for all companies other than investment trusts

Figure 2. How long are the financial statements?



As illustrated in Figure 2, there is a clear relationship between the length of the financial statements and the size of the business. This is expected, as companies in the top 350 are generally more complex and are subject to additional disclosures usually relating to financial instruments and pensions. The range between the longest and shortest financial statements is noticably larger in the top 350, the longer financial statements largely representing those entities in the banking sector where the financial statement disclosures are largely made up of those relating to financial instruments. The gap between the longest and shortest financial statements has continued to grow in the year, ranging from 18 to 137 in the year (2009: 16 to 127).

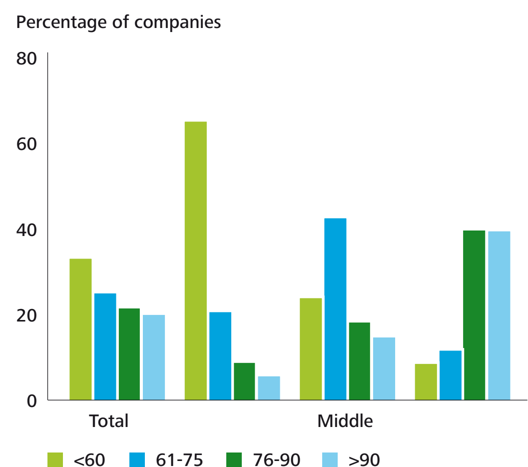
Speed of reporting

57% of companies reported within 75 days (2009: 57%) with only 21% of companies reporting after 90 days (2009: 21%).

The top 350 companies were the quickest reporters, with 85% reporting within 75 days (2009: 85%), 9% between 76 and 90 days (2009: 9%) and 6% reporting after 90 days (2009 6%). The middle group had slightly deteriorated in the year with 15% (2009: 12%) reporting after 90 days. The smallest companies remain the slowest reporters with 39% reporting after 90 days, albeit an improvement on 2009 where 52% reported in that timeframe.

The Disclosure and Transparency Rules (DTR) require that the annual report, which includes the audited financial statements, a management report and the responsibility statement, is published within four months of the end of the financial year. The potential impact of not complying with this rule is the suspension of shares. Overall, compliance with this requirement was excellent with all companies meeting the deadline.

Figure 3. How quickly was the annual report approved?

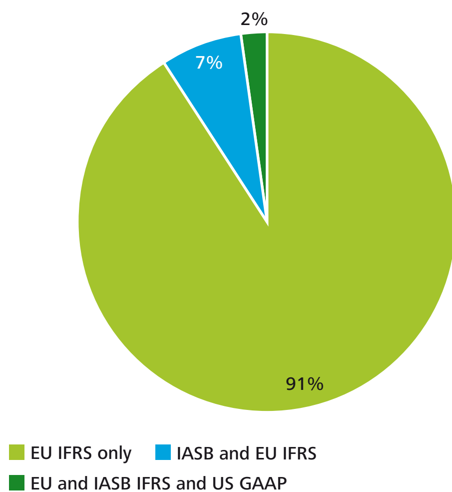


Reporting frameworks and auditors' reports

In the sample all companies had transitioned to IFRS in previous periods.

91 companies had an audit opinion under accounting policies which were in accordance with IFRS as adopted by the European Union (EU). Seven companies had an opinion under IFRS as issued by the IASB in addition to those standards adopted by the EU. Two companies had an opinion under IFRSs as issued by the IASB, those adopted by the EU and a separate opinion in relation to US GAAP.

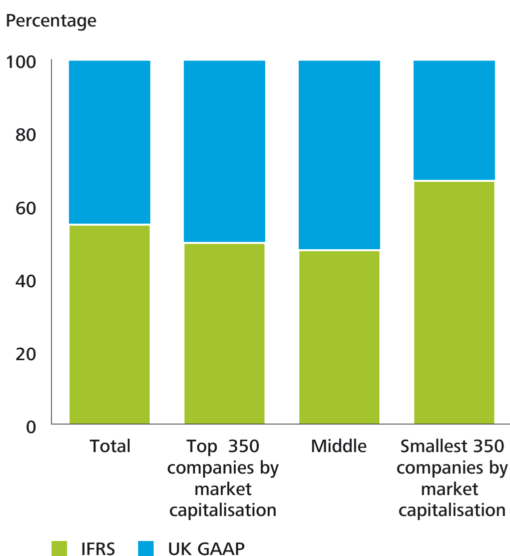
Figure 4. In accordance with which GAAP has the group audit opinion been given?



The number of groups reporting the results of their parent company under IFRS was 55%, the remaining 45% of companies reporting under UK GAAP. It has been rare to see a change in the accounting framework applied to parent companies.

All companies in the current year had subsidiaries and were required to prepare consolidated and parent only accounts.

Figure 5. Is the parent company reporting under IFRS or UK GAAP?



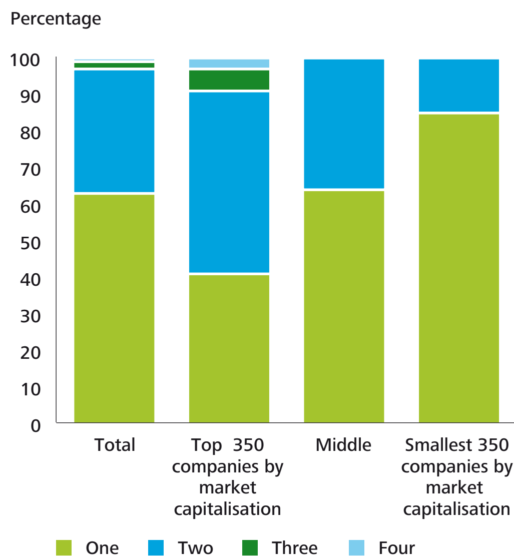
The UK Accounting Standards Board (ASB) is consulting its constituents on the future of UK GAAP. The ASB believes that only one accounting framework is needed in the UK and it should be based on IFRS. The ASB has issued an exposure draft seeking views on its proposal to replace current UK GAAP by a new tiered approach. Under this approach, the listed parent company would have to use full IFRS in its solus financial statements.

63% (2009: 61%) of companies provided one auditors' report which covered all opinions given, whether applicable to the consolidated financial statements or the parent company financial statements. 34% (2009: 35%) of companies had two auditors' reports, being one for the consolidated financial statements and a separate opinion for the company financial statements.

Two (2009: two) companies had three auditors' reports. British Telecommunications plc and Vodafone plc contained three separate auditors' reports, being one for consolidated financial statements covering both IFRS opinions (EU endorsed IFRS and as issued by the IASB) and one for the company. British Telecommunications plc also had a separate report for consolidated financial statements under US GAAP and Vodafone Group plc had a separate report on internal controls.

One (2009: one) company, Mondi Group plc, presented four audit reports. This company is listed in two different countries and presents separate audit reports for both the group and the parent company – covering opinions on compliance with IFRS applicable to South Africa, IFRS as adopted by the EU and IFRS as issued by the IASB and opinions to the members of South African limited company and to the members of the British plc.

Figure 6. How many audit reports have been presented?



95% of audit opinions were unmodified, an improvement from 91% last year. Of the sample, five had emphasis of matter paragraphs, four that related to uncertainty over going concern, the remaining relating to regulatory uncertainties. One of those reports was also qualified due to a limitation in audit scope.

Going concern

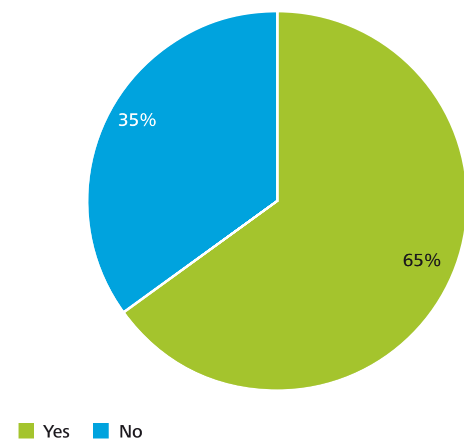
In October 2009 the FRC published *Going concern and Liquidity Risk: Guidance for Directors of UK Companies 2009* (the 2009 Guidance). This guidance is applicable for periods ending on or after 31 December 2009.

The format and style of the 2009 Guidance is significantly different to the 1994 Guidance. The revised guidance follows the same practical approach to making a going concern assessment. However the content of the revised guidance has been redrafted to focus on three key principles:

- Assessing going concern – Directors should make and document a rigourous assessment of whether the company is a going concern
- Review period – Directors should consider all available information about the future when concluding whether the company is a going concern at the date they approve the financial statements, covering a period of no less than 12 months from date of accounts approval
- Disclosures – Directors should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view, making specific disclosures on whether the period considered is less than twelve months from the date of approval of the financial statements

50% (2009: 32%) of companies surveyed included a statement in the financial statements regarding the directors' assessment of going concern despite 77% having periods ending on or after 31 December 2009. 65% of relevant companies caught by the FRC guidance included a reference to going concern in their financial statements. For those entities that did not include any specific reference to going concern in the financial statements, an assessment was made in the front half.

Figure 7. For those companies caught by the 2009 Guidance, is there specific reference to going concern included in the financial statements?



4. Income statement – results from operating activities*

- 99% (2009: 99%) of companies complied with at least the minimum disclosure requirements for the face of the income statement.
- 58% (2009: 68%) of companies presented additional non-GAAP performance measures on the face of the income statement.

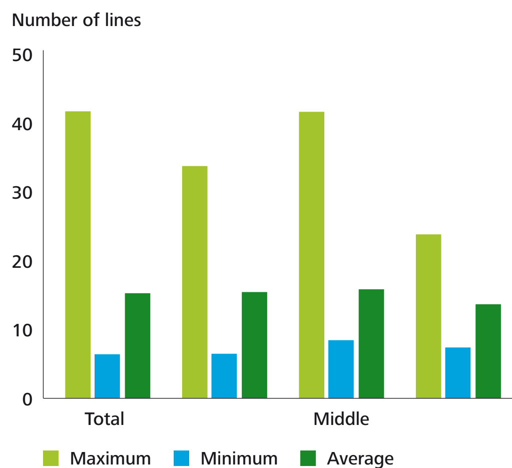
Contents of the income statement

IAS 1 requires, inter alia, separate disclosure on the face of the income statement of revenue, finance costs, tax expense and profit or loss.

99% (2009: 99%) of companies complied with the presentation requirements of IAS 1. The non-compliant company had disclosed its finance costs net of finance income. This presentation is popular with companies reporting under UK GAAP but has been rejected by IFRIC (now renamed the IFRS Interpretations Committee) as an acceptable option under IFRS.

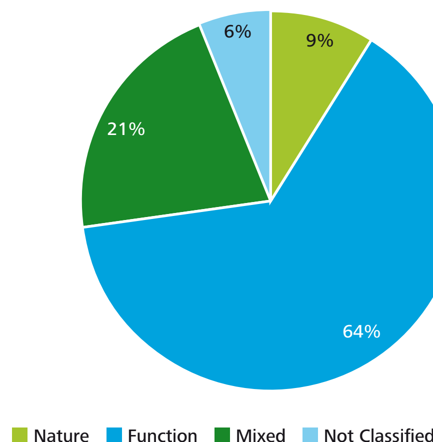
The length of the income statement, measured in number of lines from top to profit after tax, ranged from seven to 42 lines (2009: eight to 34 lines). The average number of lines was 16, the same as last year. 11-15 lines was the most popular range of lines presented on the income statement, adopted by 48 companies (2009: 54 companies). Figure 8 illustrates how this varied according to size of company.

Figure 8. How many lines, from top to profit after tax, are in the income statement?



There is no specific requirement regarding the classification of operating expenditure on the face of the income statement. IAS 1 recognises that showing expenses by either function or nature has benefits for different companies. Figure 9 shows how operating expenses are presented on the face of the income statement.

Figure 9. Classification of analysis on face of income statement



* This section analyses the findings for all companies other than investment trusts

64% of companies sampled presented their expenses by function, for example as part of cost of sales or administrative costs. Where costs are presented by function there is a further requirement within IAS 1 to disclose additional information on the nature of the expenses including depreciation and amortisation expense and employee benefits expense. This requirement was met by companies.

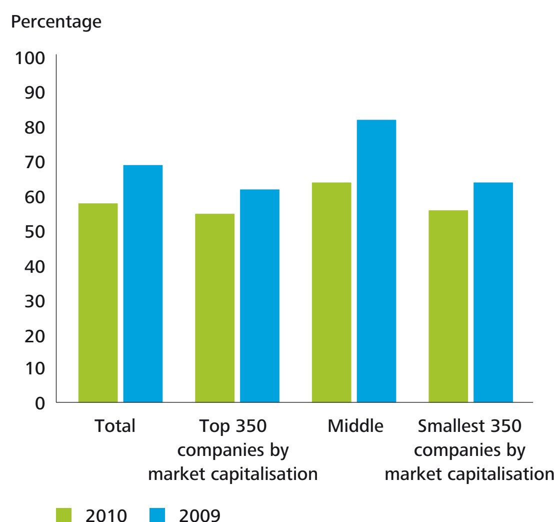
9% of companies presented their expenses by nature. 21% of companies presented a mixture of presentation by function and by nature, and 6% did not classify their expenses on the face of the income statement.

There is considerable variety in the presentation of the income statements as companies present their results in a manner that is most appropriate to their business. However, this variety reduces the users' ability to compare easily one company to another.

Additional non-GAAP measures

In the current year the number of companies that went beyond the IAS 1 requirements and presented additional non-GAAP performance measures on the face of the income statement has reduced to 58% (2009: 69%). One reason for the reduction in the presentation of non-GAAP measures is due to a higher proportion of companies incurring exceptional items last year (such as restructuring, redundancies or impairments).

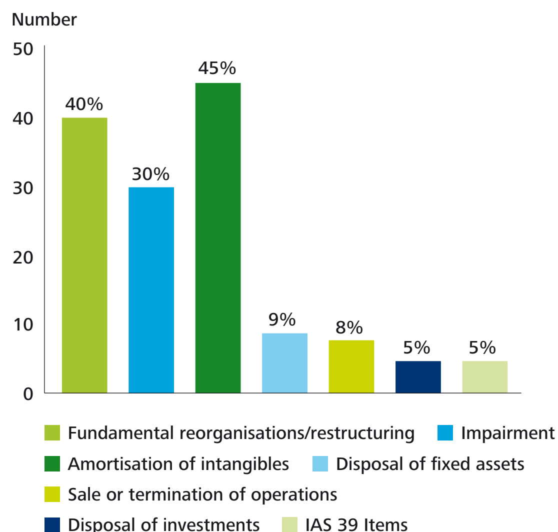
Figure 10. What percentage of companies are presenting non-GAAP measures?



This use of additional measures is permitted under IAS 1 which encourages such items to be presented when this is relevant to an understanding of a company's financial performance. In the survey, of the companies that presented additional non-GAAP information, 16% of companies did not define their additional non-GAAP measures. This is an improvement from the previous year in which 23% of relevant companies did not provide a definition. The improvement from last year may be attributable to the reduction in the number of non-GAAP items being presented.

The items most commonly excluded in non-GAAP performance measures are detailed in Figure 11 below.

Figure 11. What items do the non-GAAP measures exclude?



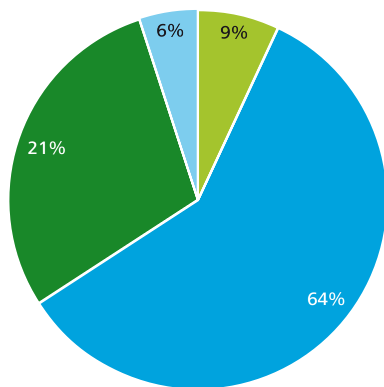
The most commonly used non-GAAP measures (69% of the relevant companies) excluded the costs of fundamental reorganisations. Impairment charges were excluded by 52% of companies with non-GAAP measures, an increase on last year's 40%.

Other common exclusions were the effects of the amortisation of intangibles, disposal of investments and fixed assets, sale or termination of operations, and items relating to IAS 39 *Financial instruments: Recognition and measurement*.

52% of companies giving additional performance measures referred to the highlighted items as 'exceptional', a term not used in IFRSs but obviously familiar to those who used to report under UK GAAP. Less common were the terms 'non-recurring'(3%) and 'underlying' (2%).

Additional performance measures are presented on the face of the income statement in a variety of ways, as Figure 12 below illustrates.

Figure 12. How are non-GAAP measures presented?



59% of relevant companies took a columnar approach to presenting their non-GAAP measures. There was:

- a complete income statement, from revenue to profit after tax, which excluded the non-GAAP measures;
- a middle column containing the non-GAAP items; and
- a column showing the full results including the non-GAAP items.

This method is illustrated in the Annual Report for BT Group plc below.

FINANCIAL STATEMENTS CONSOLIDATED FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

Year ended 31 March 2010	Notes	Before specific items £m	Specific items* £m	Total £m
Revenue	1	**20,911**	(52)	**20,859**
Other operating income	2	378	2	380
Operating costs	3	(18,689)	(427)	(19,116)
Operating profit	1	**2,600**	**(477)**	**2,123**
Finance expense	6	(3,113)	–	(3,113)
Finance income	6	1,944	11	1,955
Net finance expense		**(1,169)**	**11**	**(1,158)**
Share of post tax profit of associates and joint ventures	15	25	29	54
Loss on disposal of associate	15	–	(12)	(12)
Profit before taxation		**1,456**	(449)	1,007
Taxation	8	(320)	342	22
Profit for the year		**1,136**	**(107)**	**1,029**
Attributable to:				
Equity shareholders of the parent		1,135	(107)	1,028
Minority interests	23	1	–	1
Earnings per share	9			
Basic				13.3p
Diluted				12.9p

Year ended 31 March 2009	Notes	Before specific items*[b] £m	Specific items* £m	Total[b] £m
Revenue	1	**21,390**	–	**21,390**
Other operating income	2	352	(13)	339
Operating costs	3	(21,033)	(395)	(21,428)
Operating profit	1	**709**	**(408)**	**301**
Finance expense	6	(3,272)	–	(3,272)
Finance income	6	2,652	–	2,652
Net finance expense		**(620)**	–	**(620)**
Share of post tax profit of associates and joint ventures	15	39	36	75
Profit (loss) before taxation		**128**	**(372)**	**(244)**
Taxation	8	10	43	53
Profit (loss) for the year		**138**	**(329)**	**(191)**
Attributable to:				
Equity shareholders of the parent		136	(329)	(193)
Minority interests	23	2	–	2
Loss per share	9			
Basic				(2.5p)
Diluted				(2.5p)

BT Group plc Annual Report, Form 20 F 2010

The second most popular option was the removable box approach, used by 29% of relevant companies. Under this approach the non-GAAP items were included in the income statement but further analysis, typically of operating profit, was presented to highlight these 'exceptional items'. This is demonstrated in the Annual Report of Oxford Instruments Group PLC below.

Consolidated Statement of Income *year ended 31 March 2010*

41

	Notes	2010 £m	2009 £m
Revenue	2	**211.5**	206.5
Cost of sales		**(120.9)**	(115.8)
Gross profit		**90.6**	90.7
Trading expenses excluding cost of sales	3	**(75.9)**	(77.6)
Trading profit		**14.7**	13.1
Reorganisation costs and impairment	5	**(0.4)**	(6.8)
Amortisation of acquired intangibles		**(4.1)**	(4.3)
Operating profit		**10.2**	2.0
Bank interest receivable		**-**	0.2
Expected return on pension scheme assets	22	**7.9**	9.6
Mark to market gain in respect of derivative financial instruments	1	**10.7**	-
Financial income		**18.6**	9.8
Interest payable on bank loans and overdrafts		**(1.3)**	(1.5)
Interest charge on pension scheme liabilities	22	**(9.4)**	(10.3)
Mark to market loss in respect of derivative financial instruments	1	**-**	(9.3)
Financial expenditure		**(10.7)**	(21.1)
Profit/(loss) before income tax		**18.1**	(9.3)
Income tax (expense)/credit	9	**(4.8)**	2.6
Profit/(loss) for the year attributable to equity shareholders of the parent		**13.3**	(6.7)
		pence	pence
Earnings per share			
Basic earnings/(loss) per share	10	**27.2**	(13.9)
Diluted earnings/(loss) per share	10	**27.1**	(13.9)
Dividends per share			
Dividends paid	11	**8.4**	8.4
Dividends proposed	11	**8.4**	8.4

Adjusted profit before tax is calculated as follows:

		£m	£m
Profit/(loss) before income tax		**18.1**	(9.3)
Reorganisation costs and impairment		**0.4**	6.8
Amortisation of acquired intangibles		**4.1**	4.3
Mark to market (gain)/loss in respect of derivative financial instruments		**(10.7)**	9.3
Adjusted profit before tax	1	**11.9**	11.1
		pence	pence
Adjusted earnings per share			
Basic earnings per share	1, 10	**17.8**	14.8
Diluted earnings per share	1, 10	**17.8**	14.8

Oxford Instruments plc

Oxford Instruments plc Reports and Financial Statements 2010

7% of relevant companies in the sample included additional line items in their income statement. This approach excluded the non-GAAP measure from the main body of the expense and often included a sub-total such as "Earnings before interest, taxes, depreciation and amortisation (EBITDA)", such that the non-GAAP measure was integral to the income statement. This is demonstrated in the Annual Report of Waterman Group PLC below.

Consolidated Income Statement

for the year ended 30 June 2009

	notes	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
Revenue-continuing operations	2	122,401	136,418
Employee benefits expense	3	(72,487)	(71,192)
Other operating charges	4	(43,632)	(54,394)
Operating expenses		(116,119)	(125,586)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		6,282	10,832
Depreciation of property, plant and equipment	11	(1,835)	(1,694)
Amortisation of other intangible assets	10	(923)	(824)
Operating profit		3,524	8,314
Interest payable	5	(1,256)	(1,694)
Interest receivable		318	371
Profit before taxation		2,586	6,991
Taxation	6	188	(2,386)
Profit for the financial year from continuing operations		2,774	4,605
Profit attributable to - Equity shareholders	19	2,517	3,756
Profit attributable to - Minority interests		257	849
		2,774	4,605
Basic earnings per share	8	8.6p	12.9p
Diluted earnings per share	8	8.5p	12.6p
Dividend paid per share	7	5.1p	6.1p
Dividend proposed per share	7	0.9p	3.8p

The notes on pages 54 to 82 are an integral part of these consolidated financial statements.

50 | Waterman Group plc Annual Report and Financial Statement

Waterman Group plc Annual Report and Financial Statement 2009

5. Income statement – other items*

- 93% (2009: 93%) of companies presented an operating profit line on the face of the income statement.
- 30% (2009: 23%) of companies had discontinued operations.

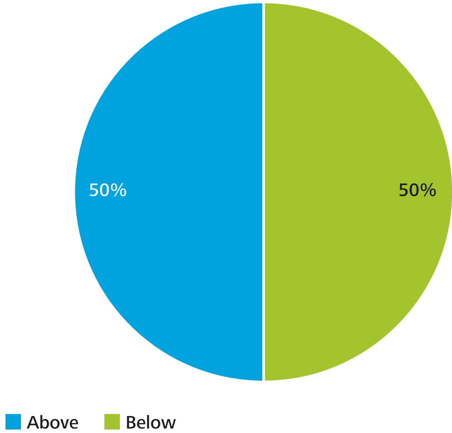
Presentation of other items

93% (2009: 93%) of UK companies presented an operating profit line. This is not a requirement of IAS 1 and there is variety in the items included in this measure. Although not a requirement, IAS 1. BC 13, states that, if such a line is included, it would be misleading to exclude items of an operating nature. These might include inventory write downs, restructuring and relocation expenses. It also notes that the measure must be presented consistently year on year and the company should disclose a specific policy making clear what line items the measure includes and excludes.

93% of the sample included an operating profit line. 13% (2009:18%) of those companies used an alternative name for the measure, such as trading surplus, profit before finance income or profit from operations.

IAS 1 requires the share of profit or loss of associates and joint ventures accounted for using the equity method to be presented separately as a single line item on the face of the income statement. Of the 43 companies with associates or joint ventures, 36 companies presented this line. For the other seven companies in the current year, six included the results of joint ventures using the proportionate consolidation method of accounting, an acceptable alternative under IAS 31. The remaining company included its share of the associate or joint venture's revenue, in addition to profit, on the face of the income statement.

Figure 13. Of the companies presenting results of associates or joint ventures, are they included above or below the operating profit line on the face of the income statement



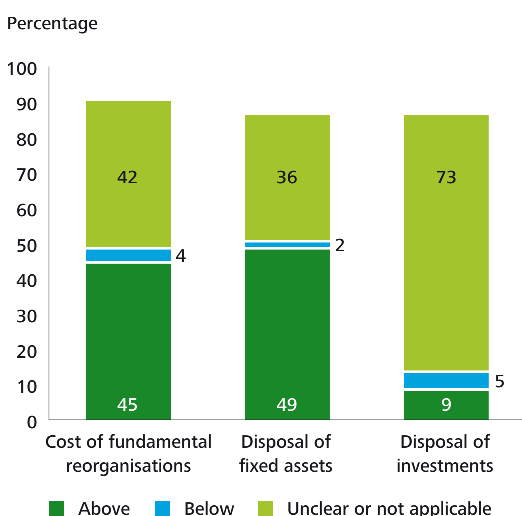
For the 36 companies that presented the share of the profit or loss of associates and joint ventures as a single line item, 50% presented this within operating profit and 50% below operating profit on the face of the income statement IAS 1 does not require the line items in the income statement to be presented in any particular order, only that the share of results of associates and joint ventures must be presented before profit for the period. Therefore either method is acceptable.

The company should disclose a specific policy making clear what line items the measure includes and excludes.

* This section analyses the findings for all companies other than investment trusts

As illustrated in Figure 14 below, the presentation of other line items varies.

Figure 14. Are the following presented above or below the operating profit line on the face of the income statement?



Under UK GAAP, FRS 3 requires the items shown in Figure 14 above to be treated as non-operating exceptional items. In contrast, based on the guidance in IAS 1 BC13, it may seem inappropriate to present these costs below operating profit.

41 out of the 45 companies that had incurred fundamental reorganisation costs during the year correctly presented these as an operating cost. Compliance has decreased from last year, where all 48 companies had followed the guidance in IAS1.

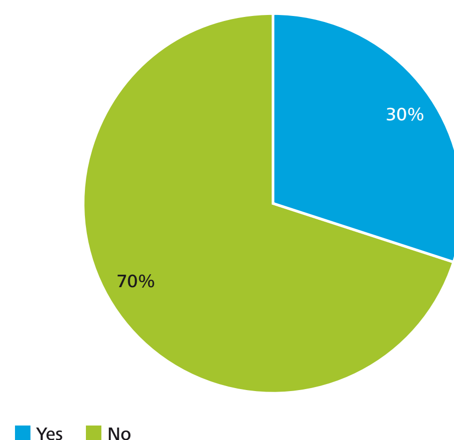
49 out of the 51 companies had disposals of fixed assets that were clearly disclosed above the operating profit line. Last year 48 companies had disposals of fixed assets,with 45 of these presenting above the operating profit line.

14 (2009: 11) companies clearly disclosed profit or loss on the disposal of an investment. Of these, nine included them as operating income or charges.
In addition 13 (2009: eight) companies disclosed results relating to the sale or termination of operations, of which nine (2009: seven) included them within operating results.

Discontinued operations

The overall objective of IFRS 5 *Non-current assets held for sale and discontinued operations* is to enable users to evaluate the financial effects of discontinued operations separately from other operations.

Figure 15. Have there been discontinued operations in the current year?



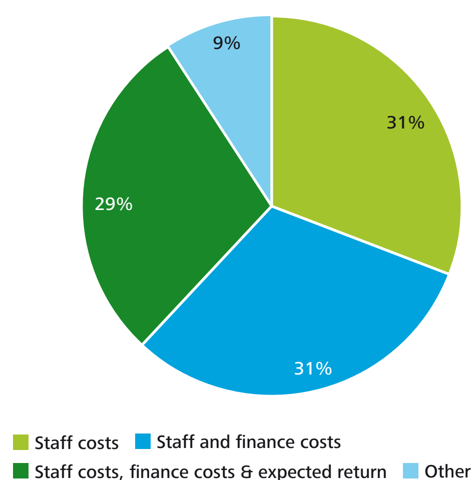
In the survey, 30 (2009: 23) companies had discontinued operations in the current year and all relevant companies correctly presented the results from the discontinued operations as a single amount on the face of the income statement.

Defined benefit pension costs

65% (2009: 62%) of companies surveyed had defined benefit pension schemes. IAS 19 *Employee benefits* discusses the various costs that may need to be recognised in the income statement (such as current service costs, interest costs, expected return on plan assets, actuarial gains and losses to the extent recognised and the effect of curtailments or settlements). However, neither IAS 1 nor IAS 19 clearly dictate how the charge/credit to the income statement should be presented.

Figure 16 below shows where the companies surveyed with defined benefit pension schemes elected to include the items in the income statement.

Figure 16. Where are defined benefit pension costs included in the income statement?



Staff costs | Staff and finance costs | Staff costs, finance costs & expected return | Other

31% of companies with a defined benefit pension scheme attributed the pension costs to staff costs alone. 31% allocated the pension costs to both staff costs and finance costs. 29% of companies disclosed the costs allocated between staff costs, finance costs and expected return The remaining 9% of companies presented the pension costs in different ways to those detailed above.

Earnings per share (EPS)

IAS 33 *Earnings per share* requires all listed companies to disclose EPS.

Where a company chooses to present additional EPS figures (which is permitted under IAS 33), both basic and diluted figures are required to be presented with equal prominence. The spirit of IAS 33 would seem to suggest that these additional EPS figures should be presented in the notes rather than on the face of the income statement.

Of those companies which presented additional non-GAAP performance measures, 71% of these companies presented both adjusted basic and diluted EPS.

Of the 30 companies with discontinued operations in the year (2009: 23), 17 (2009: 14) companies presented EPS for total operations and EPS for continuing operations (the difference being the result for the discontinued operations). 11 companies showed both EPS for continuing operations and discontinued operations, usually together with a total, a slight increase from eight last year. The remaining two companies (2009: one) only presented EPS for total operations on the face of the income statement.

Income statement for parent companies

The exemption available under the Companies Act 2006 allowing companies not to publish a separate income statement for the parent company was popular, with 92% companies taking advantage of it. Of the remaining 8%, 7% of companies disclosed a separate income statement for the parent company. The remaining company was subject to Jersey law and was not required to publish a separate income statement for the parent entity.

6. Reporting changes in equity*

- All companies, that were subject to IAS 1 revised, presented a Statement of Changes in Equity (SOCIE) as a primary statement.
- 68 companies paid out dividends, a slight decrease from last year (77).
- All companies adopting IAS 1 revised presented dividends paid during the year in their SOCIE.

IAS 1 revised, applicable for periods commencing 1 January 2009, requires financial statements to include presentation of non owner changes in equity either in one statement (Statement of Comprehensive Income) or in two statements (a separate income statement and a Statement of Comprehensive Income). In addition, IAS 1 revised requires a primary statement showing all changes in equity arising from capital transactions with owners and distributions to owners (i.e. transactions with equity holders acting in their capacity as equity holders). This is different to the previous version of IAS 1 (2003) where there was a choice between inclusion of a Statement of Recognised Income and Expense (SORIE) and a Statement of Changes in Equity.

Presentation

Figure 17. Has a SOCIE been presented as a primary statement?

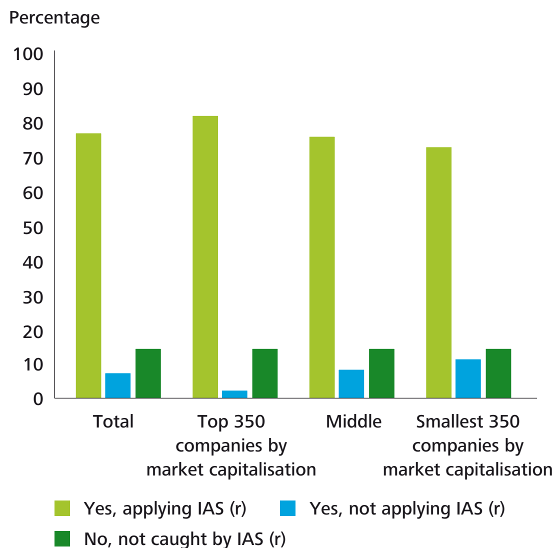


Figure 17 shows that the majority of companies presented a SOCIE following the revised requirements of IAS 1. 23% of those surveyed had accounting periods commencing before 1 January 2009. Of those where the revised IAS 1 was not applicable, 35% had presented a SOCIE voluntarily.

Last year 78% of companies had share-based payment schemes and 68% of those companies recognised a share-based payment movement in equity.

* This section analyses the findings for all companies other than investment trusts

Dividends

The revised IAS 1 requires companies to disclose the amount of dividends recognised as distributions to owners during the period. Because dividends are distributions to owners in their capacity as owners, it is not appropriate to present dividends in the Statement of Comprehensive Income as this statement presents non-owner changes in equity. This is a change from IAS 1 (2003).

68 companies paid dividends on ordinary shares in the current period, a slight decrease from 77 in the previous year.

Of the 68 companies which paid dividends, 58 companies presented a SOCIE either under the requirement of IAS 1 revised or voluntarily. All of these companies correctly presented the dividend movement in the SOCIE. The remaining companies presented the dividend paid separately in a reserves note.

Share-based payment charges

IFRS 2 *Share-based payment requires* a company to disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on its profit or loss for the period and on its financial position.

88% of companies sampled had share-based payment schemes, of which 74% had a share-based payment movement within equity during the year. Last year 78% companies had share-based payment schemes and 68% of those companies recognised a share-based payment movement in equity.

Cash flow hedges

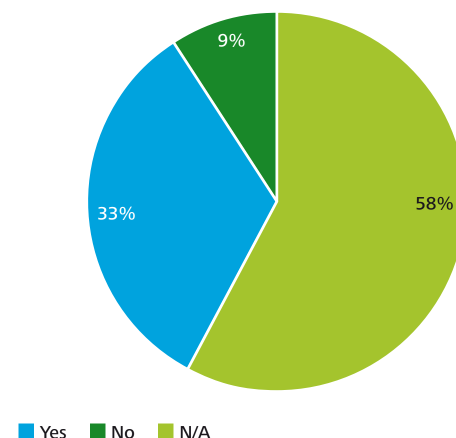
59% (2009: 62%) of the companies sampled stated clearly in their accounting policies that the company entered into hedging contracts to hedge against cash flow risk. 30 of these companies included movements in cash flow hedges in an income statement, a reduction from last year's 36. 29 companies disclosed the movement in the cash flow hedges in the notes to the financial statements or there were no movements disclosed during the period. For the remaining 41% of companies, most of them indicated that they had not entered into any contracts during the period.

Non controlling interests (minority interests)

IAS 1 also requires disclosure, on the face of the SOCIE, of the total comprehensive income for the period showing separately the amounts attributable to owners and to non controlling interests.

From those sampled, 42 companies had non controlling interests, of which 33 companies presented the movement in the SOCIE. Of the remaining nine companies, movements of non controlling interests were not disclosed in the primary statements due to IAS 1 revised not being applicable. Those movements were included in the notes to the financial statements.

Figure 18. Have movements in non controlling interests been included in the SOCIE?



7. Cash flow statement*

- As last year, all companies used the indirect method to present the cash flow statement.
- 35% (2009: 29%) of companies received dividends during the period. Of these, 74% classified the cash flows as an investing activity (2009: 79%).

IAS 7 *Statement of Cash Flows* requires that a cash flow statement is presented reporting the inflows and outflows of cash and cash equivalents during the period. Cash flows must be analysed across three main headings (operating, investing and financing activities).

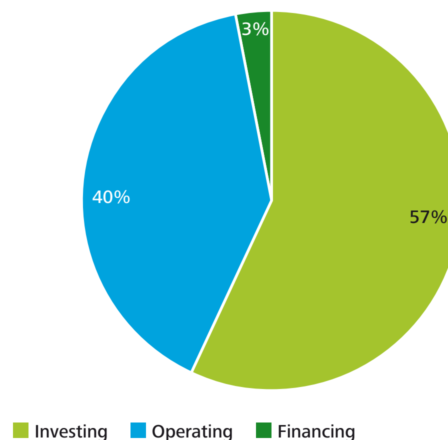
All companies complied with the requirement to present a cash flow statement as a primary statement but there was significant variety across the companies in the presentation of cash flow items.

IAS 7 allows two methods of presenting the cash flow statement, the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, and the indirect method, whereby profit is adjusted for a variety of effects. All companies sampled chose to present their cash flow statement using the indirect method, which is consistent with the prior year.

Interest

IAS 7 notes that interest received may be classified as operating or investing cash flows. The financial institutions in the sample included interest received as an operating cash flow. How cash flows from interest received were classified across the sample is shown in Figure 19 below.

Figure 19. How are cash flows from interest received classified?

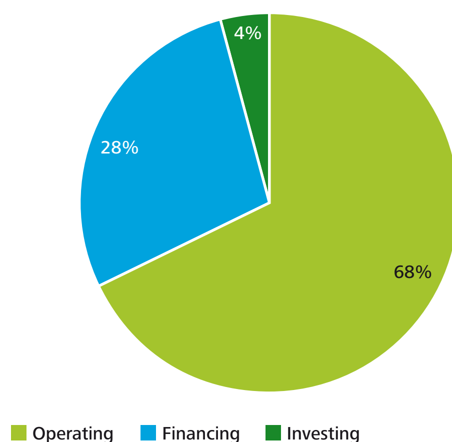


90% (2009: 94%) of companies recognised cash flows from interest received. Of these companies, there was a preference to present these cash flows as an investing activity, an approach adopted by 57% (2009: 50%) of companies, rather than as an operating activity, chosen by 40% (2009: 43%) of companies. Results are similar to those in last year's survey. Three companies considered interest received to relate to financing activities.

* This section analyses the findings for all companies other than investment trusts

In accordance with IAS 7, interest paid should be classified as either an operating or a financing cash flow. Figure 20 below shows how the companies presented their cash flows from interest paid.

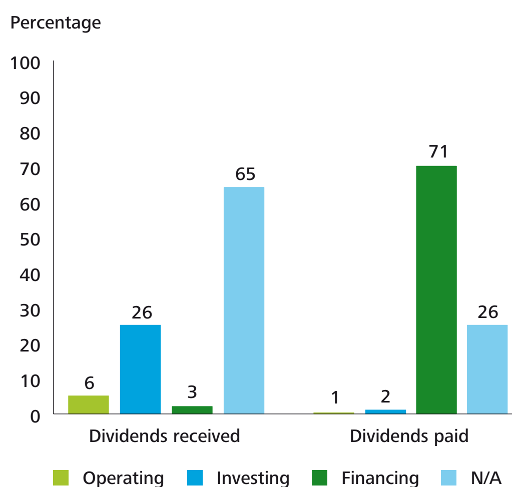
Figure 20. How are cash flows from interest paid classified?



97% (2009: 98%) of companies recognised cash flows from interest paid. 68% of those companies paying interest chose to present this as an operating activity which is consistent with last year. 28% of relevant companies chose to present the interest payments as a financing activity, again consistent with last year. The remaining companies presented the interest paid as an investing activity.

Dividends

Figure 21. How are cash flows from dividends paid and dividends received classified?



IAS 7 classifies dividends paid as either financing or operating cash flows. 74 companies (2009: 77) paid dividends on ordinary shares in the current period, 71 (2009: 76) of those classifying dividends paid as a financing activity.

IAS 7 requires dividends received to be presented as income derived from operating or investing activites. 35% of companies received dividends during the period, an increase from 29% last year. Of these, 74% classified the cash flows as an investing activity (2009: 79%), 17% classified them as an operating activity (2009: 21%) and the remaining 9% as a financing activity.

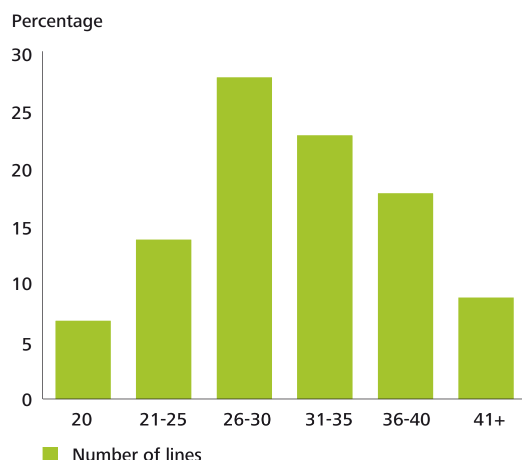
8. Balance sheet*

- All of the companies sampled complied with the minimum disclosure requirements on the face of the balance sheet.
- The length of balance sheets varied from 15 to 50 lines, with an average length of 31 lines.
- 9% presented a third balance sheet, as introduced from 2009 by the revised IAS 1.
- The number of companies with assets held for sale has more than doubled from 13 in 2009 to 30 in 2010.

Balance sheet presentation

IAS 1 allows companies some flexibility in the presentation of the balance sheet. However there is less variety in practice than with the income statement as discussed in section 4. All of the companies sampled complied with the minimum disclosure requirements of IAS 1, an improvement on last year (96%).

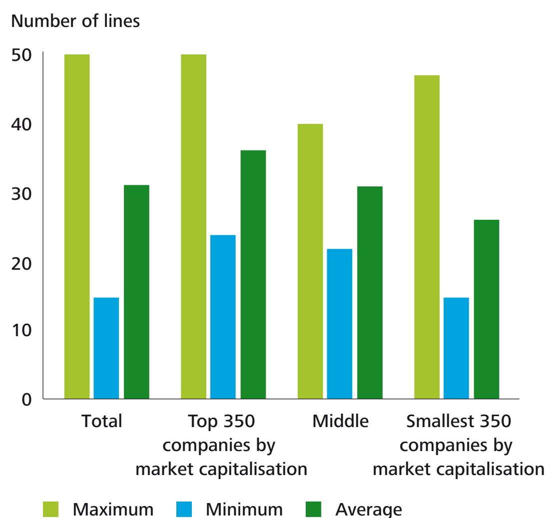
Figure 22. How many lines are on the face of the group balance sheet?



The average length of the group balance sheet was 31 lines. The longest balance sheet was that of Thomas Cook plc which contained 50 lines. The shortest was that of Asterand plc at 15 lines.

The average length of the balance sheet decreased as the companies got smaller, as shown in Figure 23, which is consistent with previous surveys.

Figure 23. How many lines are on the face of the group balance sheet by size of company?



A choice is given under IAS 1 to present balance sheets in order of the ageing of the items (i.e. current/non-current) or in order of liquidity. Ageing presentation has continued to be a more popular option, with 96% of sampled companies presenting in this manner. Four companies presented their financial position in order of liquidity, these entities being financial institutions.

The third balance sheet

9% of companies presented a third balance sheet, as required under certain circumstances by the revised IAS 1. The standard requires a third balance sheet – showing the position at the beginning of the prior period – to be shown when the entity has had a retrospective application of an accounting policy or a retrospective restatement or reclassification of items in its financial statements. The objective of this amendment is to enhance comparability.

Five of these companies were in the top, two in the middle and two in the smallest 350 companies. Common standards that have been amended that required the restatement of comparatives were IAS 1 (revised) *Presentation of Financial Statements,* IAS 23 *Borrowing Costs and* IFRS 2 *Share based payment.*

* This section analyses the findings for all companies other than investment trusts

Examples of disclosures made in respect of the prior period restatement are demonstrated in the Annual Reports of Mothercare PLC and XAAR PLC below.

28. Prior period restatement

Amendments to IAS 38 require that when an entity has a right to access or has taken delivery of mail order catalogues or advertisement, any associated expenditure must be recognised as an expense. Historically, and in line with a number of similar companies, the group has prepaid the costs of preparing catalogues until the catalogue has been distributed and the benefits of sales associated with the costs of the catalogue are being earned.

Mothrcare plc Annual report and accounts 2010

4. RESTATEMENT OF PRIOR PERIODS

The financial statements include a restatement of the prior year balance sheet in relation to the accounting treatment of tax in the group for prior periods.

The adjustment predominantly relates to the accounting for untaxed reserves in the Swedish subsidiary and has no impact on the Income Statement or Cash Flow Statement.

XAAR plc Annual report and accounts 2009

Presentation of assets held for sale

IFRS 5 requires the following line items to be presented separately on the face of the balance sheet:

- total assets classified as held for sale and assets included in disposal groups classified as held for sale; and
- liabilities included in disposal groups classified held for sale.

Of the 30 companies that held assets for sale, 25 presented the assets held for sale and corresponding liabilities on the face of the balance sheet. The remaining five companies noted the assets held for sale within a note in the financial statements. The number of companies with assets held for sale has increased from last year when only 13 companies had assets held for sale, all of which disclosed the corresponding assets and liabilities on the face of the balance sheet.

Taxation

86% of companies showed tax on the face of their balance sheet, a reduction from 91% last year. Of the remaining companies, eight did not have any tax payable or receivable or deferred tax to recognise in the balance sheet. The other companies appeared not to meet this disclosure requirement in IAS 1 to present tax balances on the face of the balance sheet.

98% of companies produced tax reconciliations as required by IAS 12 *Income taxes* (2009: 99%). Of the companies that produced a tax reconciliation, the average number of lines included in the reconciliation was seven, with a minimum and maximum of two and seven lines respectively. Of the two companies that did not produce a tax reconciliation, one included a narrative note in the financial statements explaining there was no tax charge in the current and previous year due to brought forward trading losses offsetting profits. The other company was a Jersey domiciled company which was not subject to tax charges.

68% of companies (2009: 54%) with deferred taxation clearly disclosed the amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax had been recognised on the balance sheet.

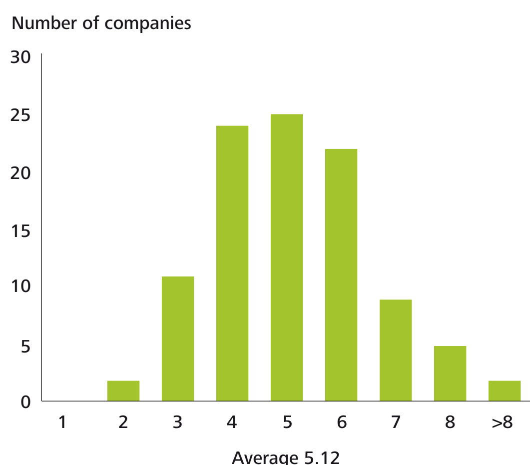
33% of companies with investments in subsidiaries, branches, associates or joint ventures clearly disclosed temporary differences associated with these investments for which deferred tax liabilities had not been recognised.

It is difficult to tell whether all companies in the sample complied with these requirements as some companies may not have had such temporary differences or recognised deferred tax on these differences.

Reserves

For the companies sampled, the number of reserves that each company disclosed varied widely. Figure 24 provides the analysis.

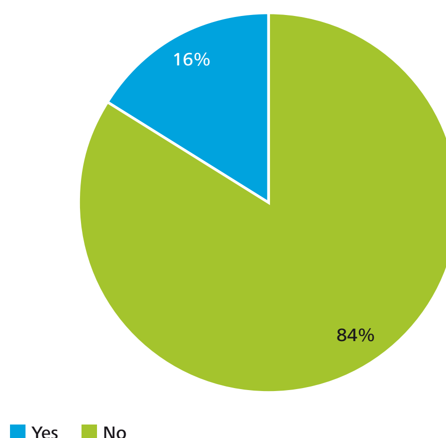
Figure 24. How many reserves have been disclosed?



The average number of reserves disclosed across all companies was five, ten being the greatest number disclosed and the fewest being two. Results are consistent with the prior year. There is a general correlation between the size of the company and number of reserves it presents. The top 350 companies had an average of 5.8 reserves, the middle group had an average of 5.2 reserves and the smallest 350 companies had 4.3 reserves.

IAS 1 requires the financial statements to include a brief description of the nature and purpose of each reserve within equity. 16% of companies fulfilled this requirement for every reserve. A large number of companies complied with this requirement for reserves whose function was not necessarily obvious from the description of the reserve (for example “other reserve”), but omitted to describe more common reserves. Many companies described each reserve except for retained earnings, suggesting that a description of this reserve would be superfluous to readers’ needs. This is illustrated in Figure 25.

Figure 25. Is there a brief desciption of all reserves included in the financial statements?



Foreign exchange gains and losses

IAS 1 requires an entity to disclose the gains and losses arising from foreign exchange transactions. 78% of companies indicated that they had foreign exchange transactions during the year, consistent with last year. Of those that had foreign exchange transactions, 59% (2009: 56%) had disclosed their foreign exchange gains/losses in the income statement along with a reconciliation in reserves. 20% (2009: 26%) disclosed only reserves movements and 21% (2009: 18%) disclosed only an income statement charge during the year.

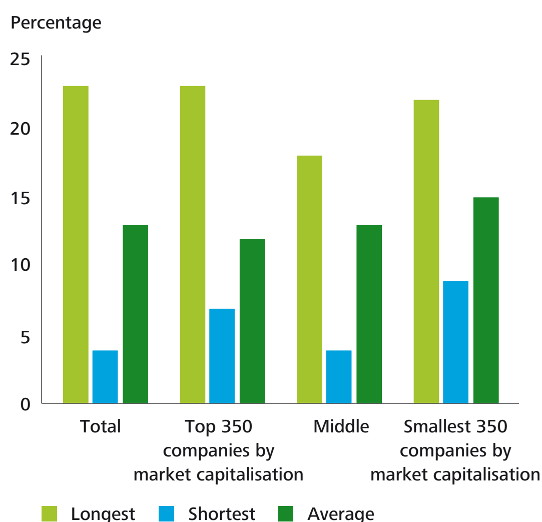
9. Accounting policies

- Accounting policies were on average six pages long (2009: five) and made up 13% of the financial statements (2009: 12%).
- 95% (2009: 96%) of companies disclosed standards and interpretations in issue but not yet effective, with 13% (2009: 19%) indicating that these might have a material impact.
- 88% of companies clearly disclosed the critical judgements made in applying the accounting policies, an improvement from 86% last year.
- The average number of judgements disclosed was four, an increase from three in the prior year.
- 92% of companies disclosed their key sources of estimation uncertainty, the same as last year.

IAS 1 requires a clear statement in the notes to the financial statements stating compliance with the requirements of IFRS. In addition, the standard requires that the financial statements include a summary of the significant accounting policies and other explanatory notes.

The length of the accounting policies notes ranged from two to 17 pages in a large banking group, an increase from last year where the longest was 10 pages. The average number of pages for accounting policies was six pages (2009: five). As shown in Figure 26, policies as a percentage of the financial statements ranged from 4% to 23% with an average of 13% (2009: 12%).

Figure 26. How long is the accounting policies note as a proportion of the financial statements?



It is the smallest 350 companies that have the greatest proportion, 15% on average, of their financial statements being taken up by the accounting policies note.

Reporting standards in use

IAS 8 *Accounting policies, changes in accounting estimates and errors* requires a list of standards and interpretations in issue but not yet effective to be disclosed, together with the anticipated impact on the financial statements of each of these. 95% (2009: 96%) of companies complied with the requirement to provide the listing. Of these companies, 13 clearly disclosed the expected impact of applying a particular standard or interpretation in the future (2009: 19 companies), with seven companies being in the top group, three in the middle and three in the bottom.

Only three companies chose to adopt standards early, all relating to IFRS 8 *Operating Segments*.

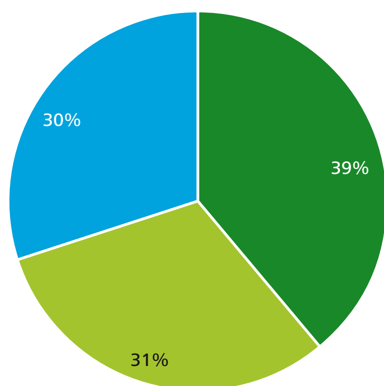
During the year under review, there were three main new or revised standards that were applicable for accounting periods commencing on or after 1 January 2009.

- IFRS 8 *Operating segments* was adopted by 77 companies. Further detail on this is included in Section 10.

- IAS 1 Revised *Presentation of Financial Statements* was not adopted early by any of the companies. However it became mandatory during the period covered by the survey and so was adopted by 74 companies.

- IFRS 7 Revised *Financial Instruments: Disclosures* was not adopted early by any of the companies. However 61 companies adopted the revised standard in the period.

Figure 27. Has the company adopted the amendments to IFRS 7 re hierarchy disclosures?

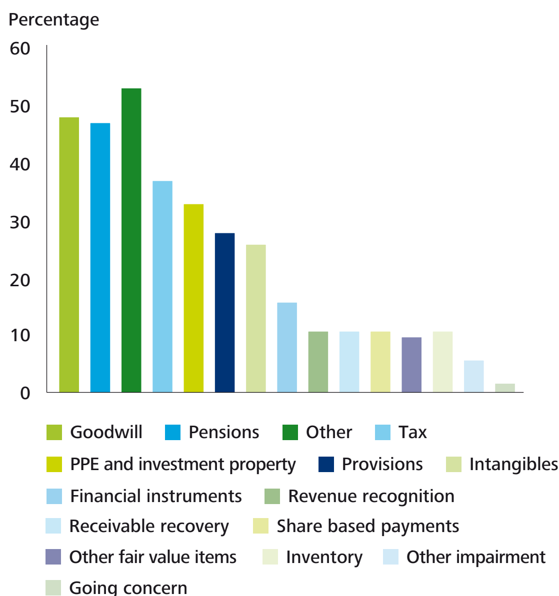


Critical judgements

IAS 1 requires the disclosure of the critical judgements made by management in the process of applying the group's accounting policies. These are described as those judgements that have the most significant effect on the amounts recognised in the financial statements.

88% of companies clearly disclosed the critical accounting judgements made in applying their accounting policies (2009: 86%). These results are consistent with the FRRP's 2010 Annual Activity Report. It noted an overall improvement in the disclosure of the judgements management had made in applying their accounting policies.

Figure 28. On what issues are the critical judgements being made?



There was a large range in the number of critical judgements disclosed by companies from the sample under review, from one to ten, with an average of four critical judgements across the companies. The range and average number of judgements disclosed remained reasonably consistent with last year. As shown in Figure 28 above, the most common judgements made were around goodwill, pensions (typically the actuarial assumptions), tax related items, PPE/investment property (including determining useful lives and impairment) and provisions. It is perhaps encouraging that the category of other was the largest. These typically represented company-specific items, such as the life of a mine or particular development costs. An example from Fidessa Group plc is shown overleaf.

Fidessa Group plc, Annual report and accounts 2009

Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates, assumptions and judgements that are likely to contain the greatest degree of uncertainty are summarised below. This summary is not a list of all risks, estimates and judgements encountered by the group and others could arise that cause a material adjustment to the carrying value of assets and liabilities.

a Development expenditure

The Group invests in the development of future products and material enhancement of existing products in accordance with the accounting policy. The assessment as to whether each element of this expenditure will be technically feasible, generate future economic benefit or the period over which to amortise the expenditure is a matter of judgement. The carrying value of product development capitalised is detailed in note 14 and the amounts capitalised and amortised in the year are detailed in note 5.

b Income taxes

In recognising income tax assets and liabilities estimates have to be made of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain and on the expected manner of realisation or settlement of deferred tax assets and liabilities.

c Revenue

The revenue for perpetual software licences and fixed price implementations is recognised on a percentage of completion basis.

Management exercises judgement in determining the percentage complete for software and consultancy revenue and the total cost of implementation. Estimates are continually revised based on changes in the facts relating to each contract. In recognising revenue on contracts where losses are expected the quantum of the loss has to be estimated based on the latest facts available and judgement applied to factors that are still variable.

d Fair values

IFRSs require many assets, liabilities and expenses to be recognised at fair value. This includes the intangible assets (notes 13 and 14), potential gains held in escrow in respect of the sale of investment in Touchpaper (note 15) and other liabilities arising from acquisitions. By their nature fair values are estimates and subject to different interpretation.

e Impairment of goodwill

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash generating unit to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash generating units, management's estimates of discount rates, long-term operating margins and long-term growth rates (note 12). If the results of the cash generating unit in a future period are materially adverse to the estimates used for the impairment testing an impairment charge may be triggered.

Key sources of estimation uncertainty

IAS 1 requires the disclosure of the key sources of estimation uncertainty, at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

92% of companies disclosed key sources of estimation uncertainty, consistent with last year. Only 43% of relevant companies used the term "key sources of estimation uncertainty", an improvement from last year where only 39% of relevant companies used the term. Of the 92% of companies disclosing the key sources of estimation uncertainty, 87% gave a clear description that allowed the user of the accounts to understand the specific issues faced by that company, an improvement from 75% last year. The remaining 13% of relevant companies provided only limited and boiler-plate disclosures.

Similarly to the critical judgements disclosure, the number of sources disclosed varied from one to 11, with an average of four (2009: four).

Combining key sources of estimation uncertainty and critical judgements, 90% of companies disclosed both a large increase from last year where only 76% of companies met these IAS 1 requirements. As illustrated in Figure 29 below, one company disclosed critical judgements only, two disclosed only key sources of estimation uncertainty and seven companies disclosed neither.

Of the compliant companies, 79% (2009: 82%) presented combined disclosures on sources of estimation uncertainty and judgements, making little or no differentiation between an estimate and a judgement. The results highlight there has been little development in addressing the confusion around the distinction of these terms and the fact that estimates and judgements are often interlinked.

Prior year restatements, reclassifications and changes in accounting policies

40 (2009: 22) companies made restatements and 17 companies made reclassifications of prior year balances in their current year financial statements. The most common reason for this was to adjust for the effect of the revised standards applicable in the period, (IFRS 8 *Operating Segements,* IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements),* or general reclassifications of amounts in either the income statement or the balance sheet, reclassifications of results from discontinued operations, or the correction of material errors identified relating to prior periods.

Revenue recognition

For a number of years, the FRRP has focused on the revenue recognition accounting policy and, in particular, whether it contains sufficient specific detail to enable users of the financial statements to understand the basis on which each significant category of revenue is recognised.

Figure 29. What percentage of companies disclose critical judgements and key sources of estimation uncertainty?

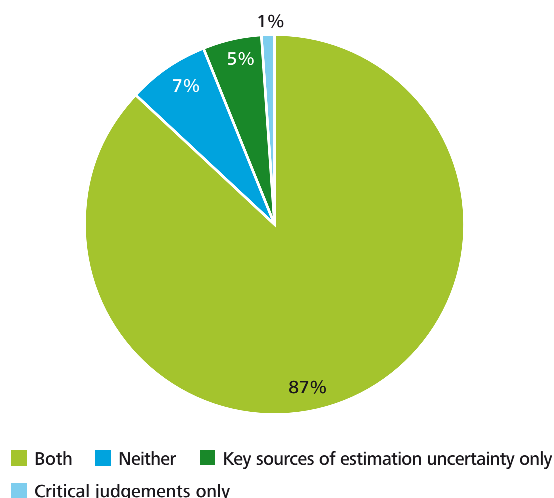
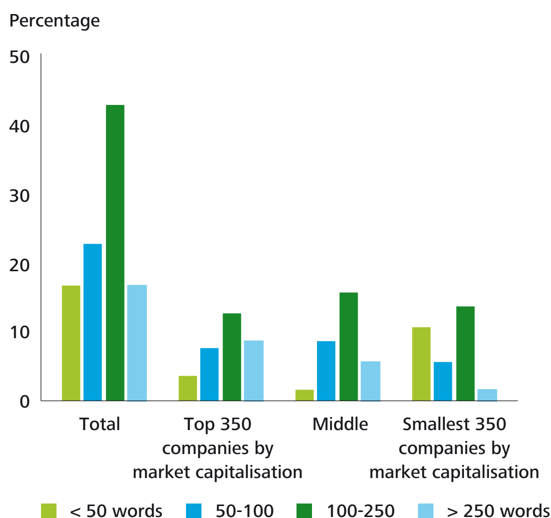


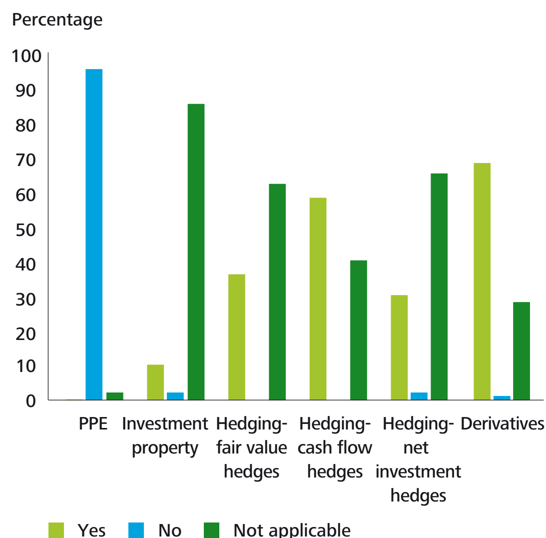
Figure 30. How long is the revenue recognition policy?



As illustrated in Figure 30, 43% of companies had revenue recognition policies that contained between 100 and 250 words, a slight increase from 40% last year. Only 17% of companies had revenue recognition policies containing fewer than 50 words, a slight increase from 16% last year. 17 (2009: 15) companies had revenue recognition policies containing more than 250 words, nine of these companies being from the top 350 companies. These results suggest that companies are taking note of comments made by the FRRP and are increasing the quality of their revenue recognition accounting policies to make them more understandable and relevant.

Fair value

Figure 31. Where have companies applied fair value accounting?



Most companies with derivatives or which applied hedge accounting valued these items at fair value, in line with IAS 39 *Financial instruments: Recognition and measurement.* Of those that did not, it was not clear from the accounting policy or notes whether the fair value concept was adopted.

97 (2009: 97) companies held property, plant and equipment (PPE) on their balance sheet, all of which were measured at cost (2009: 96 held at cost).

IAS 40 *Investment property* allows companies holding investment property a choice between whether to apply the fair value model or the cost model. 14 (2009: 15) companies in the sample held investment property on their balance sheet. Of these companies, 11 (2009: 11) chose to apply the fair value model to these assets. The remaining three companies accounted for the assets at cost (typically the fair value at the date of transition to IFRS) less accumulated depreciation. In the instances of fair value not being adopted, one suggested that the properties were held for the purpose of rental income, rather than trading the properties as part of the company's operations. The other two companies choosing not to apply fair value to their investment properties were silent on the rationale supporting their choice.

10. Segmental analysis*

- 63% of relevant companies identified business segments as their primary reporting format.
- 29% of companies reported using geographic segments.
- The average number of reporting segments has increased to four, from three last year.
- 34% of companies explicitly referred to reliance on major customers albeit, for one half of these it was to disclose that they were not caught by the disclosure requirement.

IFRS 8 *Operating segments* became effective for periods beginning on or after 1 January 2009. Out of those entities sampled, 77 companies fell into this accounting period and adopted the standard.

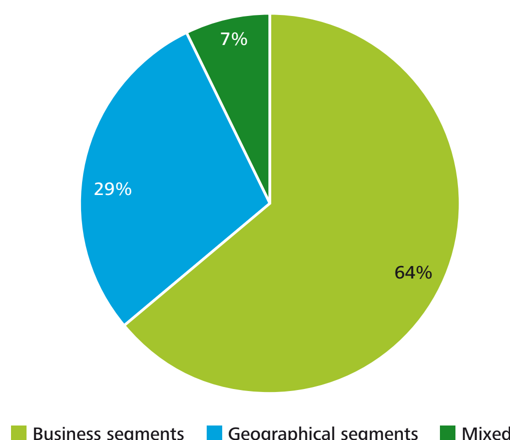
IFRS 8 was introduced to allow companies to be more more flexible than the previous standard when reporting their segmental results. The standard states that the segments reported should be on the same basis that the Chief Operating Decision Maker (CODM) uses when making decisions. Adoption of the standard has meant that comparative information has to be restated to the new basis, with a requirement to include reconciliations of the results. In addition, given that goodwill cannot be allocated to a group of cash-generating units larger than an operating segment, where there are changes in the operating segments reported, companies are required to consider whether any impairment has arisen.

Segmental information

The ways in which most companies report their segmental results, as compared to last year's survey, changed due to the implementation of IFRS 8.

Figure 32 shows the reporting formats used.

Figure 32. What is the primary reporting format that IFRS 8 adopters used?



Business segments Geographical segments Mixed

IFRS 8 was introduced to allow companies to be more flexible than the previous standard when reporting their segmental results.

* This section analyses the findings for all companies other than investment trusts

The majority of companies reported using business segments, which was a slight decrease with those adopting early IFRS 8 in last year's survey. There has also been a slight increase in the numbers reporting geographical segments, now 29% of the sample compared with 20% last year. Seven companies used a mixture of geographical and business segments.

The extract opposite from the 2010 Annual report of Vodafone Group plc is an illustration of the disclosure of mixed segments.

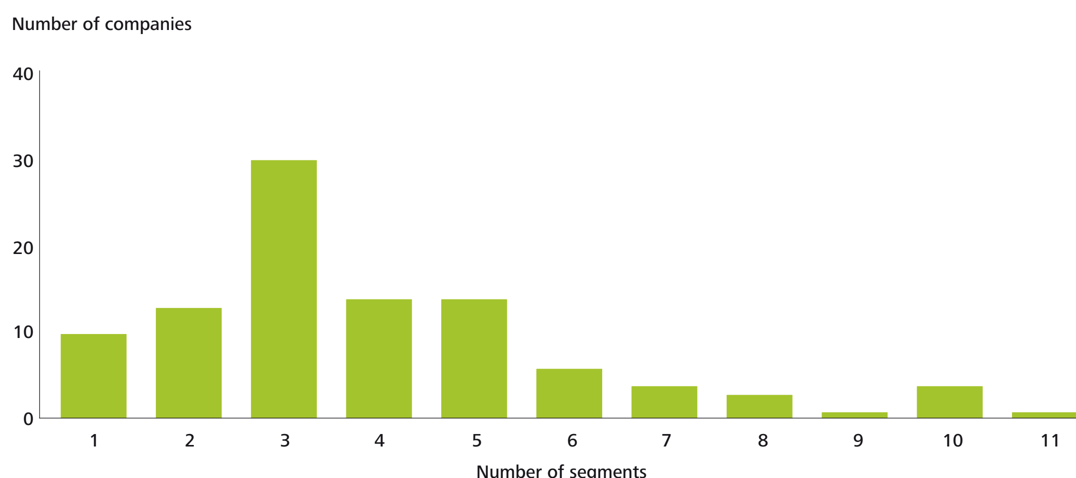
Number of segments

The number of segments reported ranged from one to ten with an average of four being reported. 90% identified two or more segments, consistent with last year. The most popular number of segments to be presented was three. The results are illustrated in Figure 33 below. This measure includes unallocated or central corporate segments.

Of the 58% (2009: 68%) of companies that disclosed non-GAAP measures on the face of the income statement, 37 companies (64%) (2009: 65%) further analysed the excluded items by segment in the notes to the financial statements. These measures typically included EBITDA, operating profit before exceptional items or splitting between recurring/non-recurring results.

IFRS 8 and IAS 14 require a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or individual financial statements. All companies disclosing two or more segments complied with this requirement, consistent with last year.

Figure 33. How many segments were identified?



3. Segment analysis

The Group has a single group of related services and products being the supply of communications services and products. Segment information is provided on the basis of geographic areas, being the basis on which the Group manages its worldwide interests. Revenue is attributed to a country or region based on the location of the Group company reporting the revenue. Inter-segment sales are charged at arm's length prices.

During the year ended 31 March 2010 the Group changed how it determines and discloses segmental EBITDA and adjusted operating profit in order to ensure the Group's disclosures better reflect the contribution of each segment to the Group's underlying operating performance and remain consistent with internal reporting to management. The changes do not impact Vodafone's consolidated results. Intercompany revenue and expenses arising from royalty fees for the use of the Vodafone brand, which were previously included within operating expenses, are now excluded from the calculation of EBITDA and adjusted operating profit of each segment and Common Functions. In addition, intercompany charges for fixed asset usage, which were also previously included within operating expenses, are now reported within depreciation for purposes of calculating EBITDA of each segment. The tables below present segment information on the revised basis, with prior years amended to conform to the current year presentation.

	Segment revenue £m	Common Functions £m	Intra-region revenue £m	Regional revenue £m	Inter-region revenue £m	Group revenue £m	EBITDA £m
31 March 2010							
Germany	8,008		(37)	7,971	(12)	7,959	3,122
Italy	6,027		(37)	5,990	(5)	5,985	2,843
Spain	5,713		(79)	5,634	(4)	5,630	1,956
UK	5,025		(45)	4,980	(12)	4,968	1,141
Other Europe[1]	5,354		(51)	5,303	(5)	5,298	1,865
Europe	**30,127**		**(249)**	**29,878**	**(38)**	**29,840**	**10,927**
Vodacom[2]	4,450		–	4,450	(7)	4,443	1,528
Other Africa and Central Europe[3]	3,576		–	3,576	(53)	3,523	799
Africa and Central Europe	**8,026**		**–**	**8,026**	**(60)**	**7,966**	**2,327**
India	3,114		(1)	3,113	(20)	3,093	807
Other Asia Pacific and Middle East[4]	3,368		–	3,368	(31)	3,337	1,033
Asia Pacific and Middle East	**6,482**		**(1)**	**6,481**	**(51)**	**6,430**	**1,840**
Common Functions[5]	–	269	–	269	(33)	236	(359)
Group[6]	**44,635**	**269**	**(250)**	**44,654**	**(182)**	**44,472**	**14,735**
Verizon Wireless[6]	*17,222*						*6,689*
31 March 2009							
Germany	7,847		(52)	7,795	(16)	7,779	3,225
Italy	5,547		(36)	5,511	(6)	5,505	2,565
Spain	5,812		(93)	5,719	(4)	5,715	2,034
UK	5,392		(46)	5,346	(10)	5,336	1,368
Other Europe[1]	5,329		(66)	5,263	(5)	5,258	1,957
Europe	**29,927**		**(293)**	**29,634**	**(41)**	**29,593**	**11,149**
Vodacom[2]	1,778		–	1,778	–	1,778	606
Other Africa and Central Europe[3]	3,723		–	3,723	(48)	3,675	1,114
Africa and Central Europe	**5,501**		**–**	**5,501**	**(48)**	**5,453**	**1,720**
India	2,689		(1)	2,688	(19)	2,669	717
Other Asia Pacific and Middle East[4]	3,131		–	3,131	(31)	3,100	1,062
Asia Pacific and Middle East	**5,820**		**(1)**	**5,819**	**(50)**	**5,769**	**1,779**
Common Functions[5]	–	216	–	216	(14)	202	(158)
Group[6]	**41,248**	**216**	**(294)**	**41,170**	**(153)**	**41,017**	**14,490**
Verizon Wireless[6]	*14,085*						*5,543*
31 March 2008							
Germany	6,866		(51)	6,815	(11)	6,804	2,816
Italy	4,435		(33)	4,402	(6)	4,396	2,148
Spain	5,063		(96)	4,967	(4)	4,963	1,908
UK	5,424		(46)	5,378	(10)	5,368	1,560
Other Europe[1]	4,583		(64)	4,519	(3)	4,516	1,735
Europe	**26,371**		**(290)**	**26,081**	**(34)**	**26,047**	**10,167**
Vodacom[2]	1,609		–	1,609	–	1,609	586
Other Africa and Central Europe[3]	3,337		–	3,337	(35)	3,302	1,108
Africa and Central Europe	**4,946**		**–**	**4,946**	**(35)**	**4,911**	**1,694**
India	1,822		–	1,822	(12)	1,810	598
Other Asia Pacific and Middle East[4]	2,577		–	2,577	(26)	2,551	906
Asia Pacific and Middle East	**4,399**		**–**	**4,399**	**(38)**	**4,361**	**1,504**
Common Functions[5]	–	170	–	170	(11)	159	(187)
Group[6]	**35,716**	**170**	**(290)**	**35,596**	**(118)**	**35,478**	**13,178**
Verizon Wireless[6]	*10,144*						*3,930*

Notes:
(1) EBITDA is stated before £574 million (2009: £520 million; 2008: £425 million) representing the Group's share of results in associates.
(2) EBITDA is stated before £(2) million (2009: £(1); 2008: £nil) representing the Group's share of results in associates.
(3) EBITDA is stated before £50 million (2009: £27; 2008: £nil) representing the Group's share of results in associates.
(4) EBITDA is stated before £6 million (2009: £4 million; 2008: £2 million) representing the Group's share of results in associates.
(5) EBITDA is stated before £2 million (2009: £(1) million; 2008: £2 million) relating to the Group's share of results in associates.
(6) Values shown for Verizon Wireless are not included in the calculation of Group revenue or EBITDA as Verizon Wireless is an associate.

Vodafone Group Plc Annual Report for the year ended 31 March 2010

10 companies disclosed that there was only one segment, therefore no separate analysis was required. One was in the top, three in the middle and the remainder in the smallest 350 companies. Disclosure typically comprised a summary of the requirements under the revised standard and the basis for the number of segments reported.

The extracts below illustrate how this was disclosed. The first example is from Persimmon PLC (top 350 company), the second example from Alexon Group (smallest 350 company).

Major customers

IFRS 8 requires companies to disclose information about the extent of their reliance on major customers. If revenues from transactions with a single customer exceed 10% of an entity's revenues, the entity is required to disclose this fact.

34 companies had made a statement in the financial statements disclosing details of major customers or relationships, or disclosing that there were no major customer relationships in the period. 17 of those making a statement disclosed the latter.

Linking the narrative reporting to the financial statements

Most of the companies surveyed in the year were consistently analysing their results in both their narrative reporting and their financial statements. However, four companies surveyed were inconsistent in their reporting. Reasons for the inconsistencies were either the companies analysing the business as a whole in the front half with no reference to any particular segments, or analysing results in its segmental reporting note in a different way to those mentioned in the operational review.

4 Principal activities

The Group's operating segments have similar economic characteristics, products, construction processes and types of customers, and meet the aggregation criteria of IFRS 8 in full. Consequently, the Group has aggregated its geographic operations into one reportable segment which is housebuilding in the United Kingdom.

Persimmon PLC Annual Report December 2009

3 Segment Information

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer and Finance Director as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. Previously, segments were determined and presented in accordance with IAS 14 "Segment Reporting".

Following the administration of Epcoscan Limited on 27 April 2009 the Group considers that the continuing operations comprise a single business segment as it meets the aggregation criteria included within IFRS 8 on the basis that the individual clothing brands have similar economic characteristics and are similar in respect of the nature of their products, production processes, type of customer and method of distribution.

Alexon Group Annual Report 2010

11. Goodwill and intangibles*

- 80% (2009: 79%) of companies had goodwill.
- 63% of companies adopted IFRS 8 during the year, of which 38% reported a change in the number of cash generating units.
- 80% of relevant companies disclosed an allocation by cash generating unit but only 43% clearly gave the allocation by segment.
- 80% (2009: 92%) of companies with goodwill use only value in use to calculate recoverable amount.
- 68% (2009: 67%) provided sensitivity disclosures, a slight increase perhaps due to comments made by the FRRP last year.

IFRS 3 *Business Combinations* requires companies to disclose information that enables users of the financial statements to evaluate changes in the carrying amount of goodwill during the period. IAS 36 *Impairment of Assets* requires additional information on the disclosure of the recoverable amount and impairment of goodwill. In addition IAS 36 is linked with IFRS 8 *Operating Segments* which applies to those companies with accounting periods from on or after 1 January 2009. Where companies have a change in the operating segments reported, this may have an impact on how goodwill is allocated across the various segments and cash generating units (CGUs).

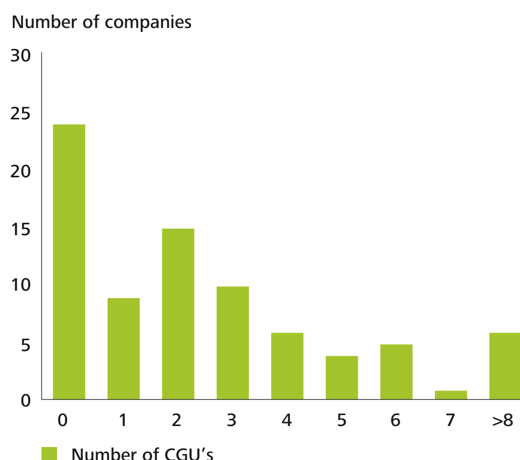
Goodwill – allocation

80% (2009: 79%) of the companies surveyed had goodwill on their balance sheets. Of these companies, 63% disclosed the allocation of goodwill across cash generating units (CGUs), a decrease from 75% last year.

Of the 63 companies adopting IFRS 8 *Operating segments,* 38% reported a change in the number of CGUs to which goodwill was allocated. Those companies that had suffered impairment during the year noted the impairment was due to a deterioration in the performance. It was not attributed to a change in the allocation of goodwill following adoption of IFRS 8.

The results displayed a variety in the number of CGUs disclosed. The largest number disclosed was 16. This company disclosed significant CGUs in the note to the financial statements with a total of 'other' CGUs, which reconciled to the total goodwill. The average number of CGUs disclosed, excluding those companies with goodwill that did not disclose any information regarding the CGUs, was 3.9, representing a slight decrease from last year's survey where the average was 4.6. This may be due to a change in the CGUs following the adoption of IFRS 8. The number of CGUs to which goodwill was allocated is shown in Figure 34.

Figure 34. How many CGUs has goodwill been allocated to?

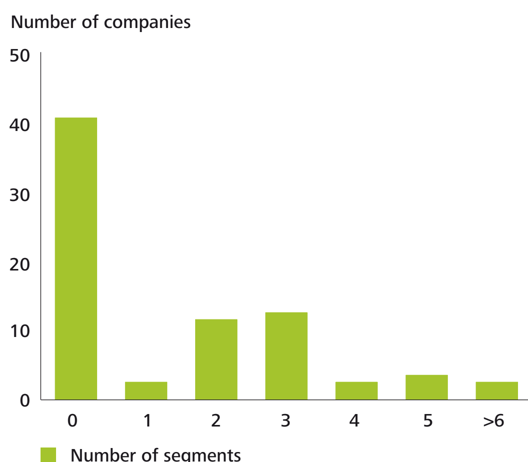


The allocation of goodwill across segments is also required. Only 34 companies (43% of relevant companies) met this requirement, a decrease from 53% of relevant companies last year.

* This section analyses the findings for all companies other than investment trusts

The number of segments to which goodwill had been allocated varied. The maximum number was nine and the average was three.

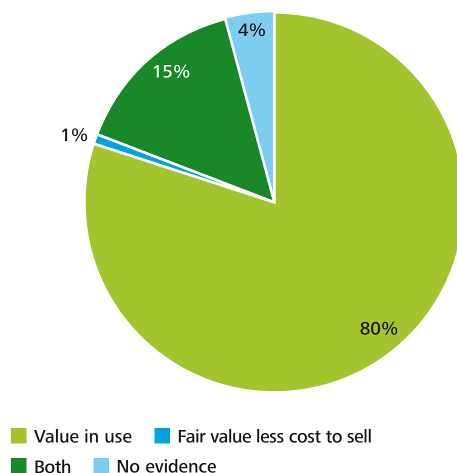
Figure 35. How many segments has goodwill been allocated to?



Goodwill – impairment review

IAS 36 requires the disclosure of the basis used to measure recoverable amounts. The recoverable amount for an asset or a CGU is calculated as the higher of its fair value less costs to sell and its value in use.

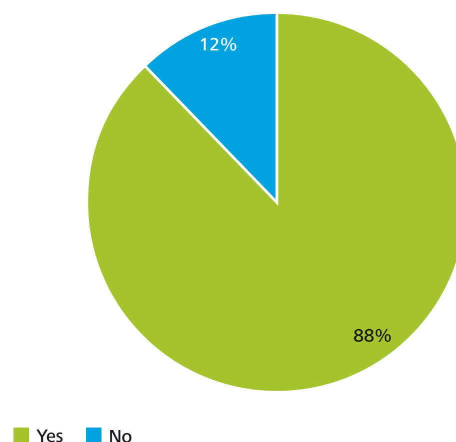
Figure 36. How has the CGU's recoverable amount been calculated?



The more common basis on which a CGU's recoverable amount had been determined was value in use, with 80% (2009: 92%) of all companies with goodwill following only this approach, as shown in Figure 36, representing a reduction from last year. One (2009: one) company used fair value to determine the recoverable amount and 12 companies (15%) used both value in use and fair value to determine the recoverable amount of their goodwill, an increase from two companies in last year's survey. The remaining companies failed to disclose clearly the basis on which their CGUs' recoverable amount was determined.

Most of the companies (88%) with goodwill disclosed the key assumptions on which management based its cash flow projections, a decrease from last year's survey (95%).

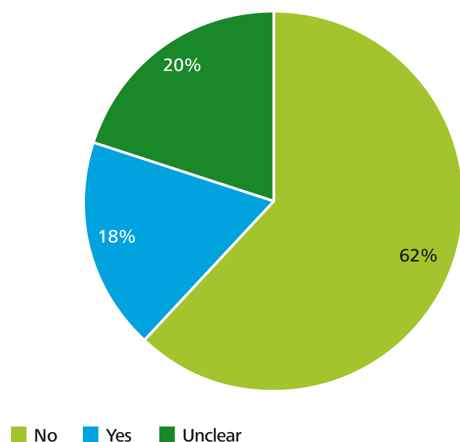
Figure 37. Have the key assumptions on which management bases its cash flow projections been described?



Most of the companies with goodwill (80%) met the requirement of IAS 36 to disclose the period over which the cash flows have been projected, a slight decrease from last year (2009: 85%).

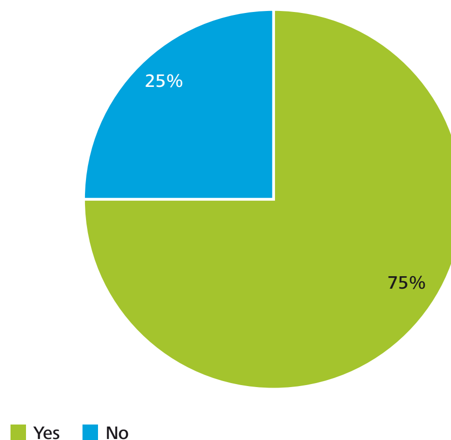
14 companies (18%) (2009: 19 companies) that had goodwill clearly assessed its recoverable amount using cash flow projections over a period of greater than five years. The requirement to provide an explanation of why the company is using a period greater than five years was met by six of these companies, a marked improvement from last year's two. A further 13 (2009: 11) companies were unclear on the period over which they had projected their cash flows. This is illustrated in Figure 38.

Figure 38. Was the period over which the cash flows are projected more than five years?



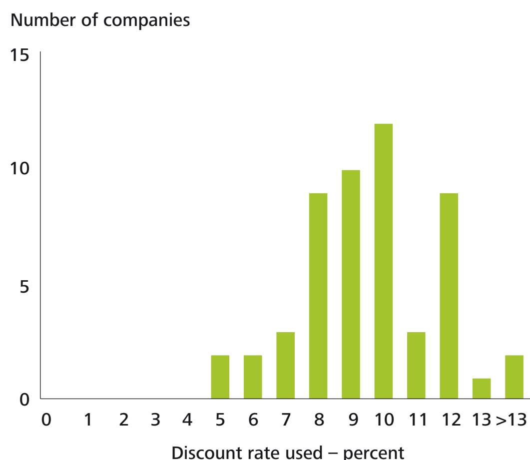
75% of relevant companies disclosed the growth rate used in their value in use calculations, a slight deterioration from 82% last year. 28 (2009: 23) companies disclosed a growth rate which exceeded the relevant long term average growth rate. Only one company followed IAS 36 requirements and justified the use of this rate, a decrease from five in last year's survey.

Figure 39. Were the growth rates disclosed?



90% (2009: 89%) of relevant companies disclosed the discount rate they used in their value in use calculations. The discount rates used ranged from 5% to 16% with an average of 10% being used as illustrated in Figure 40. Compared to last year's survey, the range of rates has narrowed, (previously 1% to 18%) yet the average rate has remained at 10%.

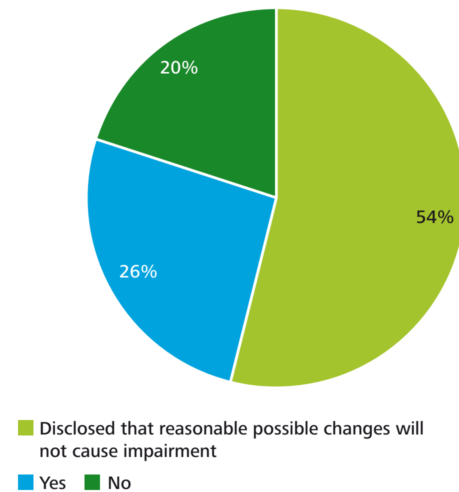
Figure 40. What were the discount rates used?



IAS 36 contains further sensitivity disclosure requirements where a reasonably possible change of key assumptions would cause the unit's carrying amount to exceed its recoverable amount.

Out of the companies with goodwill, 68% included such sensitivity disclosures, a slight increase from last year's results (67%). 54% (2009: 67%) of the compliant companies reported that reasonably possible changes of key assumptions would not cause the units' carrying amounts to exceed their recoverable amounts.

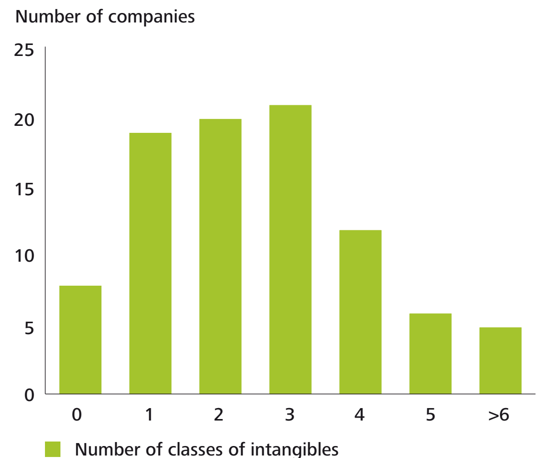
Figure 41. Were additional sensitivity disclosures provided regarding reasonably possible changes in key assumptions that cause the carrying value to exceed recoverable amount?



Intangibles

83% (2009: 81%) of companies recognised intangible assets, other than goodwill, on their balance sheets in the year. The number of classes of intangibles ranged from one to seven, with an average of three across these companies, consistent with last year's survey.

Figure 42. How many classes of intangibles have been disclosed?



IAS 38 *Intangible Assets* requires disclosure for each class of intangible, of whether the useful lives are indefinite or finite, the amortisation rates used where the useful lives are finite and the reasons supporting the assessment of indefinite life. Of the 83 companies with intangible assets, only four (2009: six) had assets assessed as having an indefinite life. However three of those with indefinite life assets were non compliant with IAS 38 as they did not disclose the rationale behind the use of an indefinite life. The company which made disclosure, Haynes Publishing PLC, only provided brief justification for using an indefinite life (due to strong reputations in their respective markets). An illustration of the disclosure made is as follows:

12 **Intangible assets (continued)**

The rate used to discount the forecast cash flows in both CGU's was 16%. Based on the impairment reviews undertaken in relation to both the Haynes North American and Vivid Holding BV CGU's, the cash flows over the next 5 year period, are expected to exceed the carrying value of the goodwill and intangible assets with indefinite or indeterminate lives and as such there are no indications of impairment at the balance sheet date (2008: £nil).

The intangible assets in relation to trademarks & domain names and know how are assigned indefinite useful lives and relate to Vivid Holding BV in Holland and Bookworks Pty Ltd in Australia. Both Vivid and Bookworks have strong reputations in their respective market places. Bookworks is the leading distributor of technical automotive publications in Australia while Vivid manages a unique multilingual database of repair and maintenance data on all current European and Asian cars, light commercial vehicles and trucks. The carrying value for assets with an indefinite life are tested annually for impairment.

In assessing the value in use of the CGU's, management have considered the potential impact of reasonably possible changes in the main assumptions used and believe that there are no such changes that would cause the carrying value of the units to exceed their recoverable amount.

Haynes Publishing Group PLC Annual Report 2009

Research and development

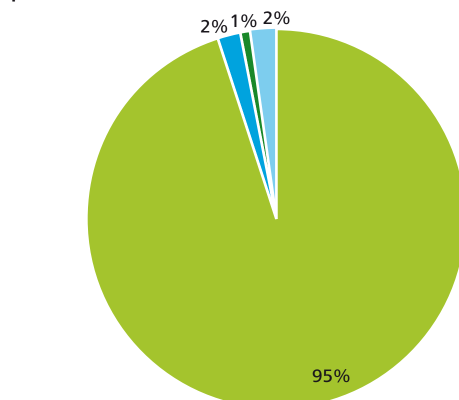
37% (2009: 40%) of companies in the survey disclosed the aggregate amount of research and development (R&D) charged as an expense in the year. Of the remaining companies, 6% of companies with no R&D expense had an accounting policy for R&D suggesting perhaps that there may have been R&D expenditure during the year which was not separately disclosed. The remaining 94% were silent on the matter. Results are in line with last year's survey.

12. Financial instruments*

- 95% (2009: 94%) of the companies presented their IFRS 7 disclosures solely in the notes to the financial statements.
- All companies in the sample disclosed financial instruments notes (2009: 98%), with 12% having over ten pages (2009: 12%).
- 52% of relevant companies presented both the impairment loss for the year and the provision held for trade receivables (2009: 68%).
- 49% of those who adopted the amendments to IFRS 7 included additional hierarchy disclosures

All companies surveyed held financial instruments, within the scope of IFRS 7 *Financial Instruments: Disclosures.* Although IFRS 7 requires companies to make various disclosures on financial instruments, the disclosure of these items are not required in a specific place. This has resulted in disclosures being found in a variety of places. In the survey, out of the 95% (2009: 94%) of companies that made all of the disclosures in the notes to the financial statements, the majority of these companies made the disclosures across more than one note.

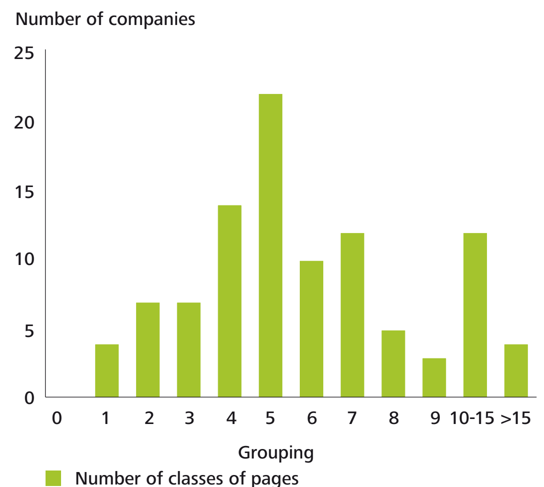
Figure 43. Where have the IFRS 7 risk disclosures been presented?



Only 3% (2009: 1%) of companies chose to disclose any of the required risk disclosures in the front half of the annual report, of which two companies also included the disclosures in the financial statements. One company (2009: two companies) did not include any specific disclosures in the financial statements and only disclosed in the front half. Results are consistent with last year's survey. This is the third year of applying IFRS 7 for most companies and so consistency in their disclosure approach has emerged.

The range in the number of pages relating to IFRS 7 disclosures has increased in the year. The longest disclosures was made by a financial institution, being 140 pages, an increase from last year where the largest was 71 pages. The average number of pages has increased to eight, from six last year. Overall, there was a clear link between the size of the companies and the length of these disclosures. Results are shown in Figure 44.

Figure 44. How long are the clearly identified notes on financial instruments?

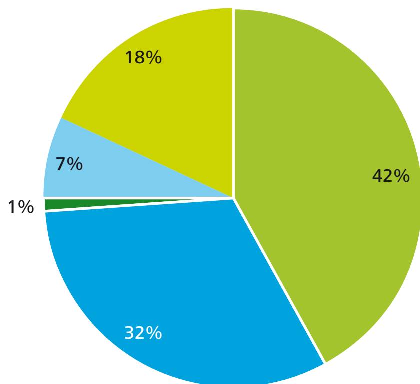


* This section analyses the findings for all companies other than investment trusts

Bad debt provisions

IFRS 7 requires a reconciliation of the changes in the provision for credit losses by class of financial assets. This should include both the balance sheet position and the charge or credit to the income statement for the period. 51% of relevant companies complied with this requirement, representing a slight deterioration from last year (68%). This may indicate that the bad debt charges to the income statement may be less in the current year compared to last year so that there was less need for some companies to make specific disclosures on the charge.

Figure 45. Has the impairment loss for the year and the provision at the year end in respect of trade receivables been disclosed?



The illustration highlights that 32% (2009: 22%) of companies gave only the balance sheet positions. 1% (2009: none) of companies gave only income statement movements. The requirement was not relevant to 18% (2009: 9%) of companies as they did not have trade receivables and the remaining 7% (2009: 7%) of companies did not provide any disclosure in respect of their bad debt provision.

IFRS 7 also requires companies to provide information to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments, the risks typically being referred to as credit, liquidity and market risks.

For liquidity risks, paragraph 30 of IFRS 7 calls for:

- a maturity analysis for financial liabilities that shows the remaining contractual maturities; and
- a description of how liquidity is managed.

93% of companies disclosed information that clearly met this requirement. An example of a maturity analysis disclosure is taken from the 2009 Annual Report of Pearson plc.

5. Financial liabilities – Borrowings continued

The maturity of the company's non-current borrowings is as follows:

All figures in £ millions	2009	2008
Between one and two years	322	–
Between two and five years	254	500
Over five years	191	491
	767	991

As at 31 December 2009 the exposure to interest rate changes of the borrowings and amounts due to subsidiaries when the borrowings re-price is as follows:

All figures in £ millions	One year	One to five years	More than five years	Total
Re-pricing profile of borrowings	419	576	191	1,186
Amounts due to subsidiaries	5,159	517	527	6,203
Effect of rate derivatives	1,288	(762)	(526)	–
	6,866	331	192	7,389

Pearson Annual report and accounts 2009

Market risk is "the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk". 87% (2009: 89%) of companies disclosed information about exposure to interest rate risk in respect of each class of its financial assets and liabilities.

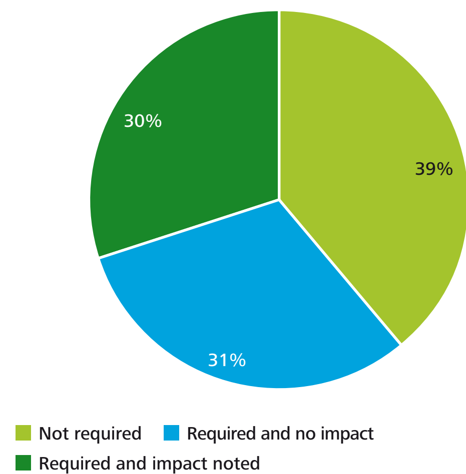
Hierarchy disclosures

Following a number of concerns over the adequacy of the disclosures surrounding fair value measurements and liquidity risks being raised, in the wake of the recent economic conditions, the IASB amended IFRS 7's disclosure requirements for financial periods beginning on or after 1 January 2009.

The revised standard requires additional or modified disclosures to be made on fair value measurement and liquidity. All instruments measured at fair value in the balance sheet are required to be classified using a fair value hierachy based on the inputs used to determine the fair values. There was also an amendment in the definition of liquidity risk, clarifying that it includes only financial liabilities that are settled by delivering cash or another financial asset. In addition, there were changes in the disclosures of derivative financial liabilities within the liquidity analysis.

During the year no companies were noted to have early adopted the revised IFRS 7 requirements. For those which were required to comply in the period, 49% presented the additional disclosures. Results are shown in Figure 46.

Figure 46. Has the company adopted the amendments to IFRS 7 re hierarchy disclosures?



There was also an amendment in the definition of liquidity risk, clarifying that it includes only financial liabilities that are settled by delivering cash or another financial asset.

13. Provisions*

- 74% (2009: 71%) of companies recognised provisions.
- 86% of companies with provisions described the obligations, a deterioration from 99% last year.
- There was a reduction in the number of companies discounting provisions compared to last year, down from 31% to 18% of companies.
- Only nine of the relevant companies clearly complied with all the requirements of IAS 37.

74% of companies surveyed recognised provisions in their financial statements. This is an increase from last year (71%). IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is very prescriptive in terms of the items that must be disclosed for each class of provision, most of which are straightforward. It is therefore surprising to see an increased number of companies this year that have failed to meet the disclosure requirements. This may be due to materiality, the nature or the expected utlisation of the provision.

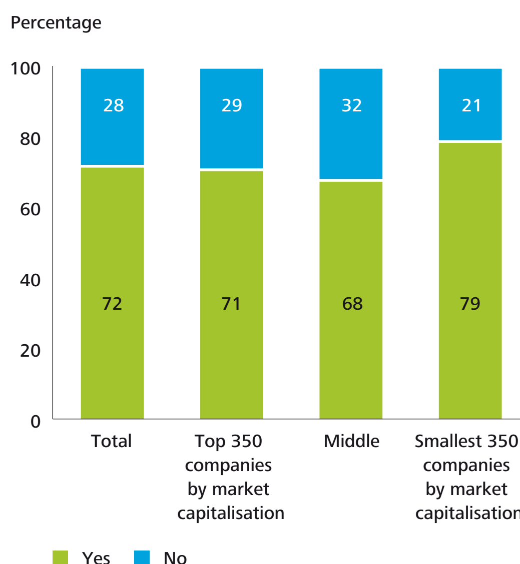
In extremely rare circumstances, IAS 37 allows companies to be exempt from disclosing some or all of the information required by the standard. This is when the required information is expected to prejudice seriously the position of a company. If the company qualifies under this criteria, it shall only disclose the general nature of the dispute and the reason why the information has not been disclosed. None of the companies surveyed had taken advantage of this exemption.

Of the 74 companies which recognised provisions, a large proportion of them (86%) provided a description of the obligation. This is slightly lower than last year where compliance with the standard was 99%. The companies that did not meet the IAS 37 requirements included relatively self-explanatory titles as opposed to an explanatory narrative.

72% of relevant companies met the IAS 37 requirement to provide details of the expected timing of any resulting outflows for provision, as shown in Figure 47 below. This represents a slight deterioration from last year's 80%. No explanation was given by the remaining companies. In most cases the provisions were relatively small compared to the size of the company. In addition, the classification of provisions was split between current and non-current, providing an indication of the expected timing of the resulting outflows of economic benefit.

There was a marked change in the number of companies expressing uncertainty in their provisions. 21% of companies with provisions disclosed uncertainties around the timing of the associated outflows, a decrease from 49% last year. This decrease may be due to a greater proportion of companies utilising their restructuring provisions in response to the recent economic conditions during the year.

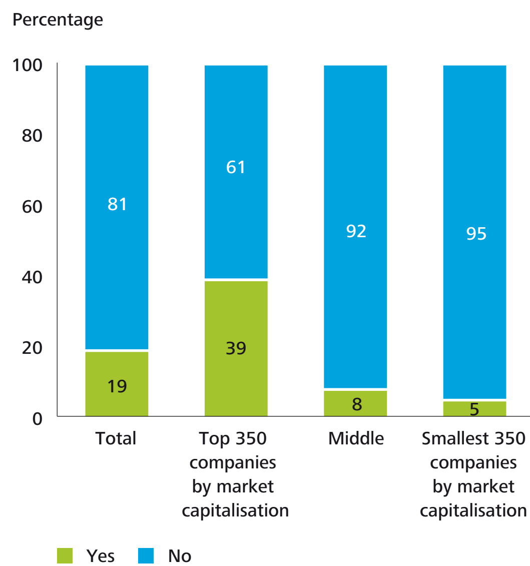
Figure 47. Has the expected timing of any resulting outflows of economic benefit been disclosed?



* This section analyses the findings for all companies other than investment trusts

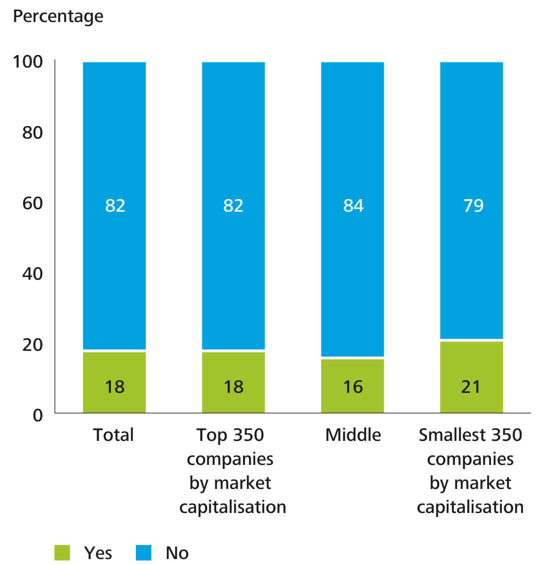
Despite the increase in the number of companies holding provisions, 81% of relevant companies did not disclose the major assumptions concerning future events relating to provisions held, a slight increase from last year's survey (73%). Non disclosure is seen largely in the smallest and middle 350 companies. This is illustrated in Figure 48. IAS 37 requires disclosure only where it is "necessary to provide adequate information". The increased level of non disclosure this year may be due to the nature, expected utilisation or size of provisions held at year end.

Figure 48. Have major assumptions concerning future events been explained?



18% of companies with provisions disclosed the unwinding of discounts on provisions, a clear decrease from last year (31%). IAS 37 requires discounting of provisions where the effect is material. This change may, in part, be reflective of the current historically low interest rates impacting the discounting rates. The results are shown in Figure 49 below.

Figure 49. Has the unwinding on any discount on provisions been disclosed?



Overall, only nine companies with provisions complied with all of the IAS 37 requirements, which is lower than last year's 11. As seen above, this is likely to be due to the nature and proportionate value of the provisions compared to last year.

14. Share based payments, retirement benefits and related parties*

- 89% (2009: 81%) of companies had share option schemes.
- 62% (2009: 62%) of companies had defined benefit retirement schemes.
- 70% (2009: 63%) of companies clearly defined key management personnel.

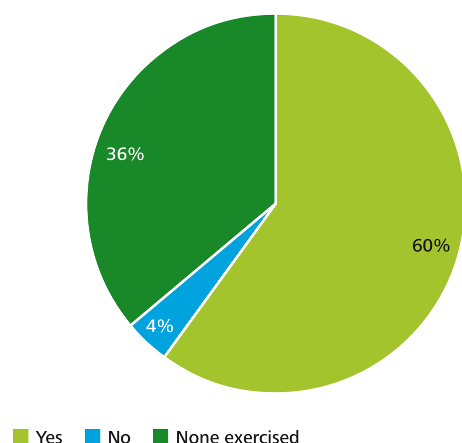
Share based payments

89% of companies included in the survey had share option schemes in place at the year end, an increase from last year (81%). Of the 11 companies that did not, nine of these were within the smallest 350 companies and two were within the middle group.

IFRS 2 *Share based payment* requires various information to be disclosed to enable users to understand the nature and extent of share based payment arrangements.

These requirements have been reviewed in more detail below.

Figure 50. Has the weighted average share price at the date of exercise been disclosed?

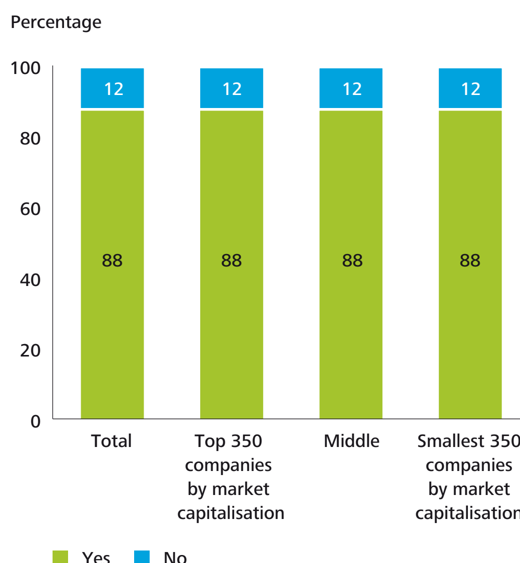


57 of the 89 companies with schemes have "exercised" during the period. 53 of these companies (2009: 58 companies) disclosed the weighted average share price at the date of exercise.

The majority of companies (90%) granting share options during the period provided clear information on how the fair value was calculated. This represents a fall from the 100% compliance rate in last year's survey.

IFRS 2 also requires the range of exercise prices for share options outstanding at the end of the period to be disclosed. Figure 51 shows that there was a generally high level of compliance with this requirement, with 88% of relevant companies clearly making this disclosure. 12 companies failed to comply with this requirement, with four of these companies were in the top, four in the middle and four in the smallest 350 companies.

Figure 51. For share options outstanding at the end of the period has the range of exercise prices been disclosed?



* This section analyses the findings for all companies other than investment trusts

Another key component of the standard is the disclosure of the weighted average remaining contractual life of outstanding options. 75% of companies complied with the requirement, a slight decrease from last year (78%).

Following comments in last year's FRRP Annual Activity Report surrounding the disclosure of computing the fair value for share options granted in the year, expectations were that disclosures would improve. The survey showed that there was a deterioration. 90% provided clear information on how the fair value was calculated of share options granted in the year, compared with 100% compliance in the prior year.

An example of this disclosure is illustrated in the accounts of Chloride PLC below.

33 SHARE-BASED PAYMENTS

The Group operates share-based payment incentive schemes which are available to Board members and certain senior executives. Full details are included in the directors' remuneration report on pages 43 to 51. The Group also operates Save As You Earn share option schemes which are open to all UK employees.

Total expenses recognised in the income statement relating to share-based payment transactions were:

	2010 £000	2009 £000
Charged to income statement	**1,830**	2,212

FAIR VALUE OF SHARE-BASED PAYMENT AWARDS

The fair value of these awards has been determined using the Black-Scholes option pricing model. The assumptions used were as follows:

	2010	2009
Risk-free interest rate	**2.64%**	5.59%
Dividend yield	**3.15%**	3.00%
Volatility	**47.5%**	35.1%
Expected lives of awards granted under:		
Executive share option and award schemes	**Three years**	Three years
Savings-related share option schemes	**Three to five years**	Three to five years
Deferred bonus shares	**Two years**	Two years
Weighted average share price at time of award		
Executive share option and award schemes	**149.00p**	242.95p
Savings-related share option schemes	**171.00p**	136.25p
Deferred bonus shares	**180.00p**	251.50p
Weighted average exercise price of new grants		
Executive share option schemes	**–**	–
Executive share award schemes	**–**	–
Savings-related share option schemes	**132.00p**	128.00p
Deferred bonus shares	**–**	–

Details of share options outstanding during the year are as follows:

	Executive share options		SAYE	
	Number	Weighted exercise price	Number	Weighted exercise price
At 1 April 2008	6,806,110	102.75p	1,461,178	89.36p
Granted	–	–	414,195	128.00p
Exercised	(3,454,761)	95.27p	(390,106)	58.04p
Lapsed	(110,000)	145.56p	(183,581)	136.10p
At 1 April 2009	3,241,349	109.27p	1,301,686	104.51p
Granted	–	–	277,509	132.00p
Exercised	(1,494,881)	93.37p	(352,372)	76.08p
Lapsed	(55,000)	188.22p	(96,581)	147.97p
AT 31 MARCH 2010	**1,691,468**		**1,130,242**	
Exercisable at the end of:				
31 March 2009	2,478,461	92.08p	24,834	74.54p
31 March 2010	1,102,472	121.31p	29,318	119.67p

The weighted average share price at the date of exercise during the year was 172.3p (2009: 246.5p).

Chloride PLC Annual Report 2010

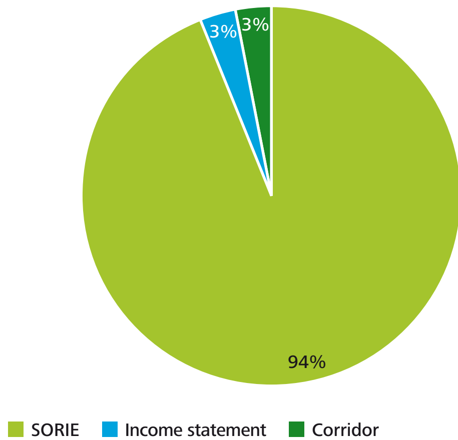
Defined benefit retirement schemes

62% of companies had defined benefit retirement schemes, consistent with last year (62%). Of the 38 companies which did not, 45% came from the smallest 350 companies and 42% came from the middle group. There were five companies in the top 350 companies which did not have a defined benefit retirement scheme.

The number of companies that have a pension surplus on their balance sheet remained consistent with last year (five companies).

IAS 19 *Employee Benefits* has two basic methods available relating to the recognition of actuarial gains and losses. The first method is known as the corridor approach, where companies recognise amounts relating to the defined benefit obligation over a specified time span. The second method results in more timely recognition of actuarial gains and losses, where gains and losses are immediately recognised through the income statement or OCI (SORIE for pre-revised IAS 1). Figure 52 below shows which policy companies adopted for recognising actuarial gains and losses.

Figure 52. What is the policy for recognising actuarial gains and losses?



Most companies (94%) (2009: 95%) recognised these gains and losses in OCI or the SORIE as this is the most similar treatment to the one which would have been applied historically under its UK GAAP equivalent standard, FRS 17 *Retirement benefits*. The two (2009: two) companies that chose to use the corridor approach were banks. The two companies, (2009: one company) that recognised actuarial gains and losses immediately in the income statement, were in the business services sector.

As discussed in section 9, IAS 1 requires companies to disclose information about the assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period, that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. 47 companies referred to their pension obligations in such disclosures, an increase from 41 companies last year.

Related parties

IAS 24 *Related Party Disclosures* requires disclosure of certain related party relationships and transactions with related parties during the period. Disclosure of these items is often positioned in various notes, included within other larger notes or in multiple locations within the financial statements. For example, key management personnel compensation may be disclosed within either staff costs or the remuneration report.

Figure 53. Was the key management personnel compensation disclosed in the related parties note?

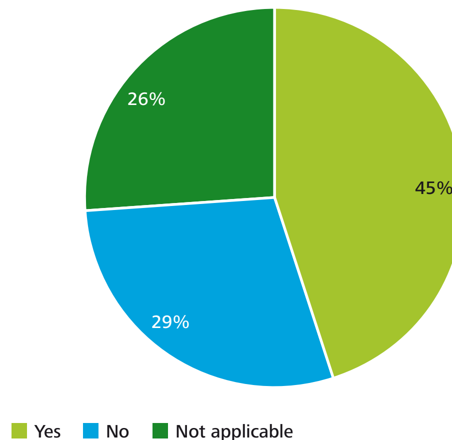
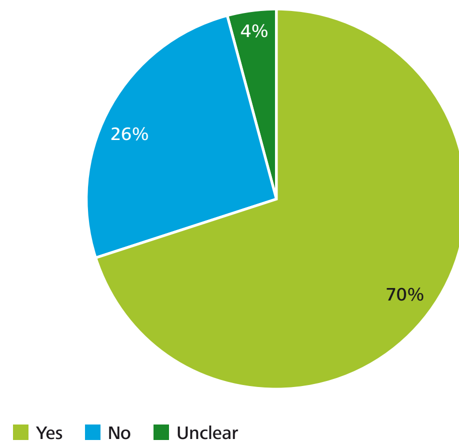


Figure 53 shows that 45 (2009: 35) companies provided information on these transactions in the related parties note and 29 companies (2009: 35 companies) did so elsewhere in the financial statements or annual report.

Figure 54. Have key management personnel been defined?



IAS 24 does not require a definition of key management personnel to be disclosed. Figure 54 illustrates that 70% of companies defined the term "key management personnel", an improvement from 63% last year. There was still a wide range of definitions of key management personnel, ranging from direct reference to lists of directors to a generic statement such as "key management personnel are considered to be operational management" without any further explanation.

Remuneration of key management personnel

The remuneration of the operating board (including directors), who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the audited part of the remuneration report on pages 36 to 41.

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Short term employee benefits	3.0	3.8
Post-employment benefits	0.4	0.5
Share-based payments	11.1	0.9
	14.5	5.2

Other transactions with key management personnel

There were no other transactions with key management personnel.

Mothercare plc Annual report and accounts 2010

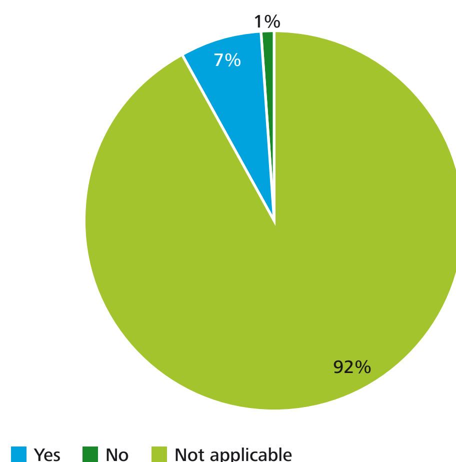
15. Subsidiaries, joint ventures and business combinations*

- 86% (2009: 71%) of joint ventures were accounted for using the equity method of accounting.
- 31% (2009: 32%) of companies had business combinations in the year.
- 30% (2009: 41%) of business combinations had the accounting determined provisionally.
- 75% (2009: 57%) of relevant companies provided information on the revenue and profit or loss of the combined entity for the period as if the acquisition date had been on the first day of the period.

Subsidiaries

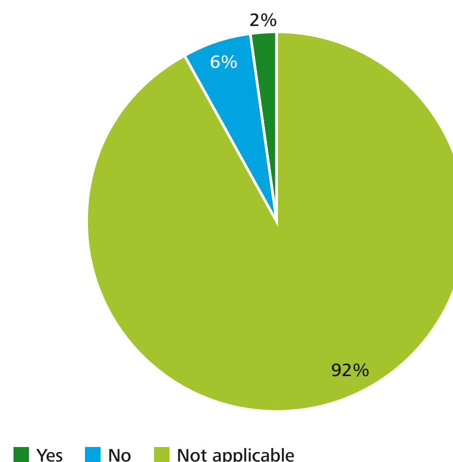
IAS 27 *Consolidated and Separate Financial Statements* requires companies to make specific disclosure of the nature of the relationship between the parent and subsidiary when the parent does not own, directly, or indirectly through subsidiaries, more than half of the voting power. Figure 55 below illustrates that this disclosure was not applicable for the majority of companies in the survey. For the others, seven (2009: eight) companies disclosed the details of those subsidiaries, with one (2009: none) company not making any disclosure of how it had obtained control.

Figure 55. Where the parent does not own more than half of the voting power, has the nature of the relationship between the parent and the subsidiary been disclosed?



The standard also requires disclosure when ownership, directly or indirectly owned through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control. This disclosure was not applicable to the majority of companies in the survey. Only two (2009: three) companies had these relationships and made adequate explanation why ownership of more than half of the voting or potential voting power did not constitute control. This is shown in Figure 56.

Figure 56. Where more than half of the voting power is owned by an investee but this does not constitute control, has the nature of the relationship been disclosed?



Joint ventures

IAS 31 *Interests in joint ventures* offers an accounting choice to companies for interests in jointly controlled entities. Companies can use either the proportionate consolidation method or the equity method. 43 (2009: 35) companies had interests in joint ventures at the period end. As illustrated in Figure 57 below, 86% (2009: 71%) used the equity method of accounting when accounting for their interests in joint ventures.

* This section analyses the findings for all companies other than investment trusts

Figure 57. Have joint ventures been accounted for using the equity method of accounting or proportionate consolidation?

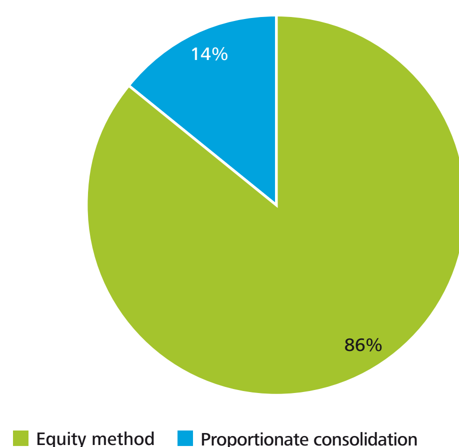
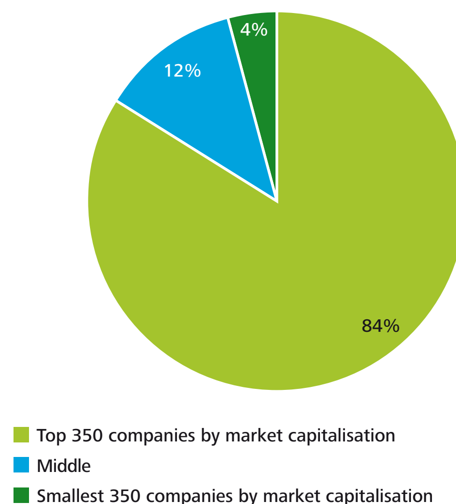


Figure 58. In which group of companies in the sample did the business combinations occur?



Business combinations

31% (2009: 32%) of companies disclosed that a business combination had occurred in the reporting period. This is still somewhat lower than previous surveys, which may be as a result of the continued challenging economic conditions and the resulting impact on companies' ability to raise finance. 23 out of the 31 companies which had business combinations in the year were from the top 350 companies. This proportion is significantly larger than last year's survey where 16 out of the 32 business combinations were from the top 350 companies. This may be indicative of finance being more readily available to the larger listed companies than smaller ones. An illustration of the distribution of business combination activity is illustrated in Figure 58.

IFRS 3 *Business combinations* requires that if the acquirer accounts for the business combination using provisional fair values, this fact, and an explanation of why provisional fair values have been used, must be given.

Under a third of companies (30%) with business combinations explicitly stated that the initial accounting had been determined provisionally, a slight reduction from last year (41%). All but one of those companies who have accounted on a provisional basis were in the top 350 companies, compared to last year's survey where accounting on a provisional basis was seen in all three groups.

Despite it being a requirement of the standard to provide specific justification for use of provisional values, only 40% of those companies, that accounted on a provisional basis, provided a clear explanation in the disclosures. Although low, this is a significant improvement from last year where only one company out of the 12 made this disclosure.

An example disclosure from Tomkins plc follows.

128

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. Acquisitions

A. Current year acquisitions

Industrial & Automotive

Fluid Power

On 7 July 2009, the Group acquired a 100% interest in Hydrolink, a fluid engineering services provider to the oil and gas and marine sectors in the Middle East. Provisional goodwill of $16.5 million was recognised on the acquisition, which represents the expected benefits to the Group from accelerating the market penetration of its products in this high-growth region. Goodwill is provisional pending the finalisation of the fair valuation of acquired intangible assets.

Building Products

Air Distribution

On 7 July 2009, the Group acquired the remaining 40% minority interest in Rolastar Pvt Ltd, a duct manufacturer based in India. Goodwill of $4.6 million was recognised on the acquisition of the minority interest. Overall, the Group recognised goodwill of $8.5 million on the acquisition of its 100% interest in the business, which represents the expected benefits from the expansion of its air distribution business in India.

B. Prior year acquisitions

2008

Industrial & Automotive

Fluid Power

On 3 March 2008, the Group acquired a 100% interest in A.E. Hydraulic (Pte) Ltd., a Singapore-based provider of hydraulic and industrial hose solutions and services for the oil exploration industry in Asia. Goodwill of $8.1 million was recognised on the acquisition which represents the expected benefits to the Group from the acceleration of its expansion into the high-growth oil and gas exploration market made possible by the acquisition.

Building Products

Air Distribution

On 22 February 2008, the Group acquired a 60% interest in Rolastar Pvt Ltd, a duct manufacturer based in India. Goodwill of $0.9 million was recognised on the acquisition.

On 20 June 2008, the Group acquired a 100% interest in Trion Inc., a manufacturer of commercial, industrial and residential indoor air quality products. Trion is headquartered in Sanford, North Carolina, with manufacturing facilities there and also in Suzhou, China. Goodwill of $2.4 million was recognised on the acquisition which represents the expected synergies from the integration of the business within Air Distribution.

2007

Industrial & Automotive

Fluid Systems

On 8 March 2007, the Group acquired the remaining 40% minority interest in Schrader Engineered Products (Kunshan) Co Ltd, a manufacturer of valves and fittings based in China.

On 26 September 2007, the Group acquired 100% of Swindon Silicon Systems Ltd, a company that designs, develops and supplies integrated circuits based in the UK.

C. Adjustment in respect of prior year acquisitions

On the completion of the initial accounting for acquisitions completed in 2008, the attributable goodwill was increased by $5.7 million as follows:

	Provisional goodwill $ million	Adjustment $ million	Final goodwill $ million
A.E. Hydraulic (Pte) Ltd.	8.1	1.6	9.7
Rolastar Pvt Ltd (acquisition of initial 60% interest)	0.9	3.0	3.9
Trion Inc.	2.4	1.1	3.5
		5.7	

Comparative information has not been restated to reflect these adjustments, which principally arose due to revisions to the fair value of acquired property, plant and equipment and the recognition of additional deferred tax liabilities, because they are not material to the Group's results or financial position.

Tomkins plc Annual Report 2009

D. Financial effect of acquisitions

	Year ended 2 January 2010				
	Acquiree's carrying amount in accordance with IFRS $ million	Fair value adjustments $ million	Provisional fair value $ million	Year ended 3 January 2009 $ million	Year ended 29 December 2007 $ million
Net assets acquired					
Intangible assets	–	5.9	5.9	37.4	11.0
Property, plant and equipment	9.3	(1.3)	8.0	9.2	7.0
Deferred tax assets	–	–	–	–	0.2
Inventories	10.6	(3.2)	7.4	12.4	2.6
Trade and other receivables	8.6	(1.4)	7.2	11.5	7.6
Income tax recoverable	–	–	–	1.2	–
Cash and cash equivalents	0.4	–	0.4	0.1	–
Bank and other loans	(7.4)	–	(7.4)	(0.4)	–
Obligations under finance leases	(0.4)	–	(0.4)	(0.4)	–
Trade and other payables	(10.3)	–	(10.3)	(8.9)	(4.4)
Income tax liabilities	(0.4)	–	(0.4)	(0.9)	(0.8)
Deferred tax liabilities	–	(6.9)	(6.9)	–	–
Provisions	–	–	–	(0.3)	–
Minority interest	4.6	2.0	6.6	(8.2)	1.0
	15.0	(4.9)	10.1	52.7	24.2
Goodwill on current year acquisitions			21.1	11.4	6.2
Adjustments to goodwill on prior year acquisitions			5.7	(3.0)	(14.2)
Consideration (including transaction costs)			36.9	61.1	16.2

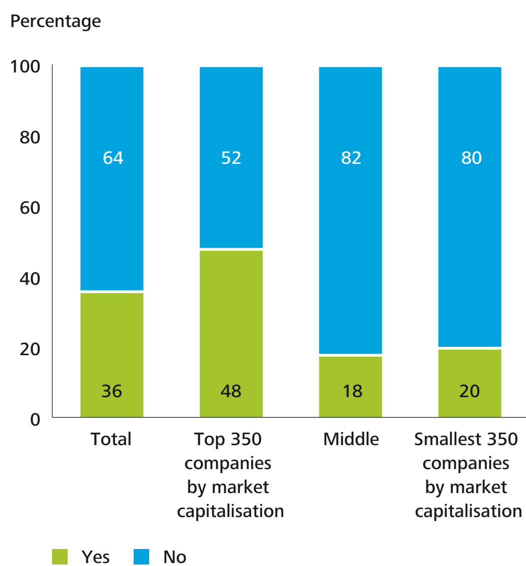
The net cash outflow on acquisitions during the period was as follows:

	Year ended 2 January 2010 $ million	Year ended 3 January 2009 $ million	Year ended 29 December 2007 $ million
Consideration paid on current period acquisitions	25.5	65.5	15.2
Cash and cash equivalents acquired	(0.4)	(0.1)	–
Deferred consideration	1.4	–	–
Adjustment to consideration on prior period acquisitions	–	(0.4)	1.8
	26.5	65.0	17.0

Businesses acquired during 2009 contributed $10.9 million to the Group's sales and reduced the Group's profit for the year by $2.0 million. If these businesses had been acquired at the beginning of 2009, it is estimated that the Group's sales would have been $16.0 million higher, at $4,196.1 million, in 2009, but it is not practicable to estimate what the Group's profit for the year would have been because they did not prepare balance sheets in accordance with IFRS as at 3 January 2009.

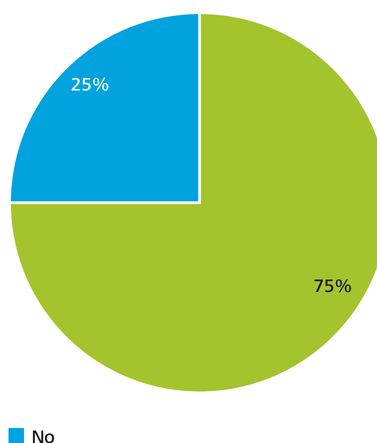
If a company accounts for a business combination on a provisional fair value basis, adjustments to the fair value must be made within 12 months and adjusted retrospectively to reflect the conditions at the acquisition date. 39 (2009: 45) companies had reported a business combination in the prior year, of which 36% (2009: 43%) of relevant companies made an adjustment to the previously reported provisional fair values. Figure 59 shows that this is more common among the top 350 companies.

Figure 59. Have any retrospective adjustments been made to provisional fair values determined in the prior year?



IFRS 3 also requires disclosure of the revenue and profit or loss of the combined entity for the period as if the acquisition date for all business combinations during the period had been the first day of the period. A marked improvement was noted from last year's survey, with 75% (2009: 53%) of relevant companies providing this information.

Figure 60. Has the revenue and profit or loss of the combined entity been disclosed as if all business combinations during the period had been entered into on the first day of the period?



The FRRP has expressed in the past concern over general compliance with IFRS 3, in particular where goodwill is recognised on acquisition but there are no separately identified intangible assets. IFRS 3 requires an acquirer to recognise intangible assets separately if they meet the definition of an intangible asset in IAS 38 and their fair value can be measured reliably. In this year's survey 61% of relevant acquisitions recognised both goodwill and intangible assets in business combinations.

Of those companies which had disclosed separable intangible assets other than goodwill, those separable intangible assets represented in one case 93% of total intangibles, that is goodwill and other intangibles. The average of intangibles to that total was 20%.

No companies adopted early the revised IFRS 3 (2008).

16. Investment trusts

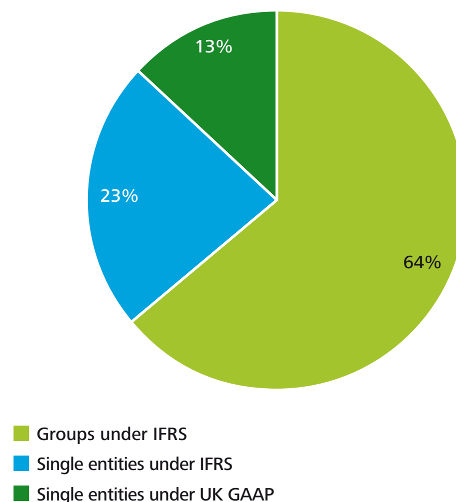
This section analyses the findings for the 30 investment trusts included in the survey. These are companies which have been classified by the London Stock Exchange as being in the industries of 'non-equity investment instruments' or 'equity investment instruments'. The sample has excluded real estate investments trusts given their different nature. Investment trusts have been selected from three categories, being those within the top, middle and smallest 350 companies by market capitalisation at 30 June 2010. The sample included 23 investment trusts and seven venture capital trusts.

- As reported in the related Deloitte survey "Swimming in words", the overall length of trusts' annual reports has decreased by 5% in comparison with 2009.
- 64% of trusts report under UK GAAP. They will be impacted by the ASB's plans for the future of financial reporting in the UK. As they are listed, they will be deemed to have public accountability and so face a transition to full IFRS, perhaps from 2013/4. The percentage using UK GAAP is consistent with 2009.

Reporting framework

Most of the trusts (64%) surveyed were stand-alone trusts which have reported under UK GAAP. 23% (2009: 27%) were parent companies within a group and therefore required to prepare consolidated accounts under IFRS. The remaining 13% (2009: 10%) of the trusts were single entities which chose to adopt IFRS. The framework that investment trusts are reporting under has remained consistent with last year. This is illustrated in Figure 61.

Figure 61. Under which frameworks are investment trusts reporting?



- Groups under IFRS
- Single entities under IFRS
- Single entities under UK GAAP

During 2009 the Association of Investment Companies (AIC) issued a revised SORP, "Financial Statements of Investment Trust Companies and Venture Capital Trusts", which incorporated the various changes in the accounting standards and other regulations affecting investment trusts. In addition this SORP was no longer specific to investment trusts and was also aimed at venture capital trusts. This SORP became applicable for all accounting periods beginning on or after 1 January 2009.

All trusts in the year had adopted the relevant SORP with the exception of two trusts, which did not apply the SORP as they were registered in Guernsey.

Some contradictory requirements were noted for those trusts adopting both the SORP and IFRS. A common example is that the SORP requires a reconciliation of movements in shareholders' funds (RMSF) and a statement of total recognised gains and losses (STRGL) as opposed to IFRS that requires a statement of changes in equity (SOCIE). In the survey, the trusts applied IFRS and therefore departed from the SORP.

Income statement

None of the investment trusts in the survey presented any non-GAAP measures on the face of their income statement, consistent with last year's survey. There was also a greater degree of consistency in the presentation of the income statement, compared to the corporates, providing users easy comparability across investment trusts. The greater degree of consistency is explained by the similar nature of the investment trusts and the existence of industry-specific guidance included in the SORP.

All of the trusts that noted adoption of the SORP had presented revenue, capital and a total column on the face of the income statement as required. All of the trusts presented the return per share at the foot of their income statement, the SORP-complying trusts showing separate values for both revenue and capital, with 43% referring to this as "earnings/ loss per share", consistent with last year.

Balance sheet

Balance sheets were similar in terms of size and presentation. The number of lines ranged from 11 to 22 lines, with an average of 16 lines presented.

All trusts adopting the SORP presented their balance sheets with current and non-current assets and liabilities categories, with a clear analysis in terms of ageing. The Guernsey trusts simply presented an 'assets' and a 'liabilities' category.

Only three (10%) of the trusts disclosed current and deferred tax balances on the face of the balance sheet. Most of those that did not had no current tax payable (as tax had already been deducted at source on franked dividend income received by the trusts from other UK companies or on overseas dividend income) or had unrecognised tax balances.

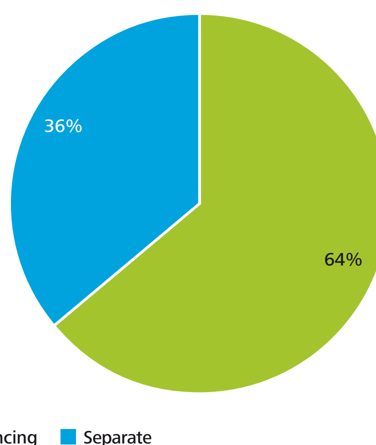
All disclosed their net asset value per share at the foot of their balance sheets. Separate information on how this was calculated was disclosed by all but one of the trusts.

Cash flow statement

As with the income statements and balance sheets, the cash flow statements were also presented on a relatively consistent basis across the trusts sampled. Consistent with last year's survey, all relevant trusts showed dividends received as cash flows from operating activities.

Where dividends were paid, those trusts reporting under UK GAAP disclosed them as a separate item in accordance with FRS 1, whilst those reporting under IFRS classified them under financing activities as permitted by IAS 7. This is illustrated in Figure 62 below.

Figure 62. Where were dividends paid disclosed in the cash flow statement?



Consistent with dividends received, all relevant trusts showed interest received as cash flows from operating activities.

Where interest was paid, 64% of the trusts disclosed it under the category "Servicing finance" or "Financing", a slight decrease from last year, and the remaining 36% showed it under operating activities, as illustrated in Figure 63.

Figure 63. Where was interest paid disclosed in the cash flow statement?

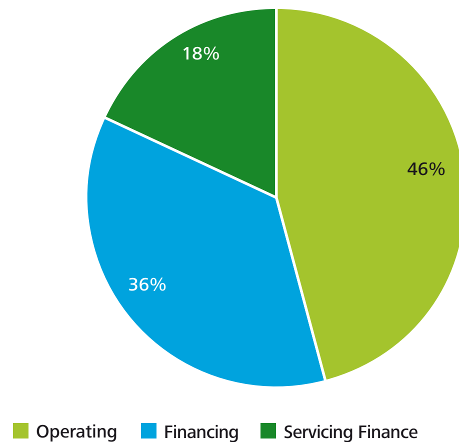
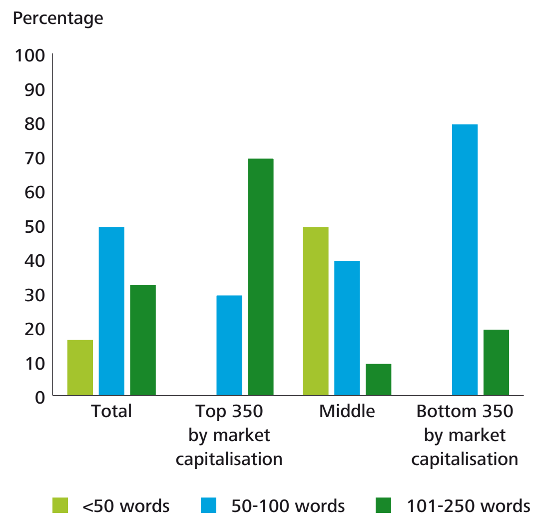


Figure 64. How long is the revenue recognition policy?



Other primary statements

The SORP requires that companies complying with UK GAAP present a statement of total recognised gains and losses (STRGL) and a reconciliation of movements in shareholders' funds (RMSF). IFRS compliant trusts present a statement of changes in equity as primary statement. All of the 19 trusts preparing accounts under UK GAAP presented a RMSF, a STRGL not being required due to all gains and losses already being included in their income statement. All of the 11 trusts preparing accounts under IFRS presented a Statement of Changes in Equity (SOCIE).

Revenue recognition explanations varied in length. Surprisingly, some smaller trusts were seen to be providing more detail than medium sized trusts as illustrated in Figure 64, as there were no instances of descriptions of less than 50 words being used in the top or smallest 350 categories. 50% of the medium-sized trusts provided less than 50 words on the subject. Results were consistent with last year's survey.

Financial instruments

During the year the revised 2009 SORP reflected a change in the IFRS7/FRS29 *Financial Instruments: Disclosures* requirements. All of those trusts that adopted the new SORP reported a change in their disclosures, with additional hierarchy disclosures included.

Investment trusts surveyed fell within the scope of either FRS 29 or IFRS 7 *Financial Instruments: Disclosure.* Disclosures were included in the notes to the financial statements. The length of disclosures around financial instruments varied considerably, ranging from three (2009 – one) to eight (2009 – seven) pages in the annual reports surveyed, marking a slightly smaller range than last year. The average length was around four and a half pages (2009: three and a half). The increase in the average length may be explained by the continued uncertainty in the current financial markets and the revised 2009 SORP.

97% (2009 – 93%) of the sample provided information around their exposure to interest rate risks in respect of their assets and liabilities. 100% (2009 – 91%) of trusts also provided details around their liquidity risk, its management and a maturity profile of their liabilities where borrowings existed. None of the trusts identified any embedded derivatives.

No trusts were noted to have undertaken hedging activites as part of a risk management policy. Three trusts made reference to hedging in their accounting policies but no mention was included in the notes, making it unclear whether hedging was applicable during the year, or whether this was included as an accounting policy from past transactions.

63% (2009: 70%) of the trusts surveyed had investments in unlisted entities. All of these trusts recorded their unlisted investments at fair value calculated based on an appropriate valuation technique.

Other notes to the financial statements

Three (2009: two) of the annual reports included a segmental analysis of the business, all on a geographical basis. For those presenting segmental analysis, the number of segments ranged from three to 11.

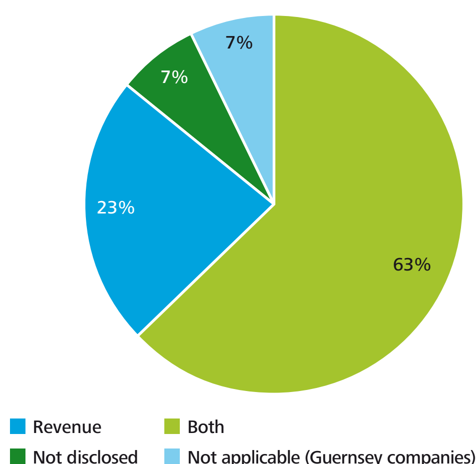
Costs

Allocations of finance costs, investment management fees and any performance-related fees were reviewed as part of the survey.

The results are as shown in Figure 65.

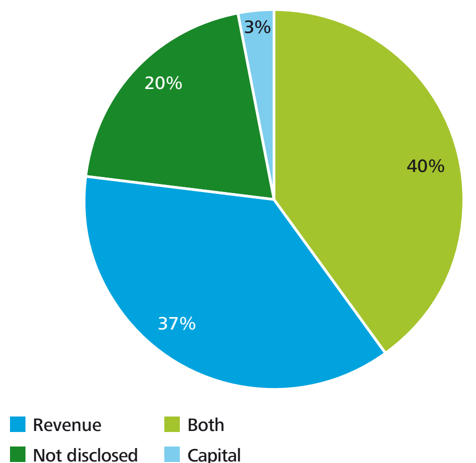
Figure 65. How are costs allocated between revenue and capital?

Investment Management Fees



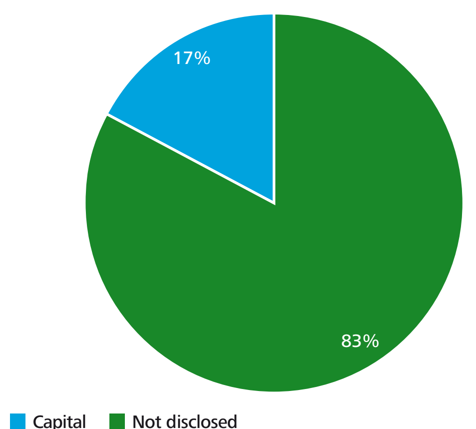
Revenue
Not disclosed
Both
Not applicable (Guernsey companies)

Finance costs



Revenue
Not disclosed
Both
Capital

Performance fees



Capital
Not disclosed

Investment management fees continued to have a wide range of treatment of whether costs were attributable to revenue or capital accounts. 23% of trusts included the investment management fees in revenue account (2009: 32%), the majority (63%) allocating costs between both revenue and capital. In all instances where the trusts split their investment management fees, they detailed their basis for allocation as required by the SORP. Finance costs also had a range of treatment, with 20% (2009 – 42%) allocating the costs solely to the revenue account, whilst 40% (2009 – 58%) allocated it between revenue and capital.

Only 17% of the trusts surveyed disclosed a performance fees charge and all of those trusts allocated the performance fees in their entirety to the capital account, consistent with last year's survey.

The SORP also requires disclosure of transaction costs incurred on acquiring and disposing of investments during the period. 53% (2009: 73%) of trusts included this information in the notes to their financial statements.

Reserves

The SORP recommends that trusts disclose clearly which of their reserves are distributable and their movements. This has improved in the year. 13 (2009: five) trusts clearly presented this information. Although an improvement, this represents only 44% of the sample. An explanation for the relatively low adoption of this disclosure point may be due to the nature of the reserve balances together with the assumption that the users of the financial statements know which reserves are distributable. Those that complied had either provided a sentence on the primary statements or included additional clarification in their reserves note (which already listed movements in the year).

Investment portfolio

The SORP includes requirements for trusts to disclose a broad geographical and industrial analysis of their portfolio, specifically listing all investments representing 5% or more of their portfolio and as a minimum their ten largest investments.

The SORP's requirement for a broad geographical and industrial analysis was met by 26 trusts in the sample. The four trusts that did not comply with this standard were the two which did not apply the SORP and the other two trusts which provided only information for their top investments and not an analysis covering the whole investment portfolio. For those that complied with this disclosure requirement, disclosure of this information was included in the front half of their annual report.

47% (2009 – 60%) of trusts disclosed their entire investment portfolio and the remaining disclosed at least their top ten investments by size. The number of investments disclosed in these latter cases varied from ten to over 50 and in most cases covered the majority of their portfolio. The average number of investments disclosed in the front half of the reports was 31.

Appendix 1 – Glossary of terms and abbreviations

AIC – Association of Investment Companies
The Association of Investment Companies is the trade organisation for the closed-ended investment company industry. Amongst other initiatives, it provides technical support and guidance to members and their advisers in areas such as accounting, tax, company law and regulation.

ASB – Accounting Standards Board
The role of the Accounting Standards Board is to issue UK accounting standards. The ASB also collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both to influence the development of international standards and to ensure that its standards are developed with due regard to international developments.

BR – Business Review
The companies Act 2006 requires that directors' reports include a Business Review.

CGU – Cash generating unit

DTR – Disclosure and Transparency Rules
These rules, which include requirements for periodic financial reporting; have been inserted into the Disclosure Rules sourcebook of the Financial Services Authority (FSA). The periodic financial reporting rules of DTR 4.1 apply to companies with shares and/or debt admitted to trading on a regulated market. The corporate governance requirements of DTR 7 apply to the same companies.

EBITA – Earnings before interest, tax and amortisation

EBITDA – Earnings before interest, tax, depreciation and amortisation

EBR – Enhanced business review

EPS – Earnings per share

EU – European Union

FRC – Financial Reporting Council
The UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

FRRP – Financial Reporting and Review Panel
The body in the UK responsible for monitoring public and large private companies' compliance with accounting standards.

FSA – Financial Services Authority
The Financial Services Authority is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA regulates the financial services industry in the UK and acts as the Competent Authority for setting and enforcing the rules applicable to listed companies and those admitted to trading on a regulated market.

FTSE 100/350 – Financial Times Stock Exchange top 100/350 companies (share index)

GAAP – Generally accepted accounting practice

IAS – International Accounting Standard

IASB – International Accounting Standards Board
The IASB is an independent body that issues International Financial Reporting Standards.

KPI – Key Performance Indicators
A factor by reference to which the development, performance or position of the company's business can be measured effectively.

IFRSIC – International Financial Reporting Standards Interpretations Committee (formerly IFRIC)
IFRIC is the term given to describe Interpretations issued by the Committee which has been renamed the IFRS Interpretations Committee (IFRSIC). It develops interpretations of IFRSs and IASs, works on the annual improvements process and provides timely guidance on financial reporting issues not specifically addressed by the existing standards.

IFRS – International Financial Reporting Standard(s)

Listed company
A company, any class of whose securities is listed (i.e. admitted to the Official List of the UK Listing Authority).

Listing Rules
The Listing Rules made by the UK Listing Authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and published in the manual entitled 'The Listing Rules' as from time to time amended.

Market capitalisation
A measure of company size calculated as share price multiplied by the number of shares in issue at a certain point in time.

PPE – Property, plant and equipment

Regulated market
Regulated market is defined in the Markets in Financial Instruments Directive. The European Commission website also includes a list of regulated markets at: http://ec.europa.eu/internal_market/securities/isd/index_en.htm

RS – The Reporting Statement: Operating and Financial Review
A statement of best practice on OFRs published by the ASB in January 2006.

SOCIE – Statement of Changes in Equity

SORIE – Statement of Recognised Income and Expense

SORP – Statement of Recommended Practice

Stock Exchange – London Stock Exchange

STRGL – Statement of total recognised gains and losses

UITF – Urgent Issues Task Force
The UK equivalent of IFRIC (now renamed IFRSIC). The UITF assists the ASB in interpreting existing standards under UK GAAP.

How can we help?

Deloitte would be pleased to advise on specific application of the principles set out in this publication. Professional advice should be obtained as this general advice cannot be relied upon to cover specific situations; application will depend on the particular circumstances involved. If you would like further, more detailed information or advice, or would like to meet with us to discuss your reporting issues, please contact your local Deloitte partner or:

Steve Gill
stevegill@deloitte.co.uk

Tracy Gordon
trgordon@deloitte.co.uk

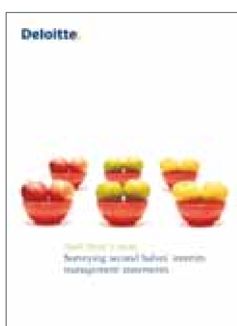
Isobel Sharp
isharp@deloitte.co.uk

Related publications

The following publications survey a consistent sample of companies through a full cycle of periodic financial reporting requirements. All are available at www.deloitte.co.uk/audit

Swimming in words – Surveying narrative reporting in annual reports (October 2010)

The survey analyses the narrative reporting of 130 listed companies, split into two categories, being investment trusts and other companies. It includes a review of how compliance with the disclosure requirements of the Companies Act 2006, the Listing Rules, the Disclosure and Transparency Rules and the Combined Code varied, the extent to which companies have adopted the FRC's revised guidance on going concern and liquidity and the use of the ASB's Reporting Statement: Operating and Financial Review.



And there's more – Surveying second halves' interim management statements (June 2010)

This publication considers how UK listed companies have met the requirements for an interim management statement (IMS) in the second year of compliance with the Disclosure and Transparency Rules with their second halves' IMS.

Down the Track – Surveying preliminary announcements (May 2010)

This publication reviews what form companies' announcements of their annual results took, compliance with the dissemination requirements of the DTR and what information companies chose to include in the financial highlights section of preliminary announcements.

Measuring by halves – Surveying half-yearly financial reporting (February 2010)

"Measuring by halves" analyses half-yearly financial statements. It reviews compliance with the Disclosure and Transparency Rules and IAS 34, how companies dealt with developments in IFRSs and what information companies choose to include in their Interim Management Report (the narrative part of the half-yearly financial report).

Notes

Notes

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2010 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 7738A

Member of Deloitte Touche Tohmatsu Limited