

## The Regulatory Framework of Accounting

The format, content and presentation of financial statements has to be subject to rules & regulations in order that those accounts are;

1. Adequate, *consistent* accounting information is available to the users of those accounts.
2. The accounts conform to national and international *law*.
3. The accounts are *standardised* so as to facilitate *comparisons*, and
4. The accounts are *understandable* and useful in *evaluating* performance.

### The regulatory framework is provided by

1. The Government
2. The EU
3. The Accountancy Profession, and
4. The Stock Exchange.

### 1 The Government

#### Through the Companies Acts.

- Companies are defined as having *Limited Liability*. Shareholders are limited to losing their capital invested in the firm.
- There are two types of company. *Private*, (Ltd) & *Public* (Plc).
- Companies must present P&L accounts and a Balance Sheet once a year to their *shareholders*.
- These must be *audited* (inspected) by a statutory, independent auditor who attaches a report to the accounts. Note; it is not the role of the auditor to inform the shareholders of how well, (or not) their firm has been run for them by the management. Only to confirm to the shareholders that the accounts do give a true & honest picture of the current state of the business.
- Some companies must separately file their annual accounts with the *Register of Companies*. The level of detail required depends on the size of the firm.

#### Classification of Firm Size

Criteria	Large	Medium	Small
Balance Sheet total	> €7.5m	€1.5m to €7.5m	Under €1.5m
Turnover	> €15m	€3m to €15m	Under €3m
Avg no of employees	>250	50 to 250	Under 50

To be classified as medium or small, a company must meet two out of the three criteria for two consecutive years.

The Presentation Requirements are as follows;

Company Type	Trading, Profit & Loss Account		Balance Sheet	
	Shareholders	Registrar	Shareholders	Registrar
Public, Large Private	Full	Full	Full	Full
Medium Private	Short	Short	Full	Abridged
Small Private	Short	None	Abridged	Abridged

- Full = No exceptions, i.e. full accounts & full Balance Sheet plus explanatory notes.
- Short = No Trading account required.
- Abridged = Less details of assets and liabilities needs to be given than in a full balance sheet.

In summary; the bigger the firm is, the more detail is required.

Note; for Public companies, everything is full.

## 2 The European Union

- Influences financial statement requirements in member countries mainly through *directives*.
- EU member states must integrate these directives into their national laws so they can be legally enforced.
- Examples of directives which have affected financial statements are;
  - 4<sup>th</sup> directive; Format and content.
  - 7<sup>th</sup> directive; Accounts of groups of companies, i.e. consolidated accounts.
  - 8<sup>th</sup> directive; Qualifications and regulations of auditors.

## 3 The Accountancy Profession.

The FRC - *Financial Reporting Council* is the Accounting body responsible for Accounting Standards in the UK and Ireland

It issues rules which the industry is obliged to follow. These rules are called;

- SSAP's                 Statements of Standard Accounting Practice (old rules - pre 1991)
- *FRSs*                 Financial Reporting Standards   (new rules - after 1991)

## 4 The Stock Exchange

Only Public Companies (Plc's) are listed on the stock exchange.

As part of the process of becoming a Plc, firms must *agree to comply* with all the listing rules that will apply to them once they are listed

Public companies must publish both Final Accounts and Balance Sheet in full.