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

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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet total</td>
<td>&gt; €7.5m</td>
<td>€1.5m to €7.5m</td>
<td>Under €1.5m</td>
</tr>
<tr>
<td>Turnover</td>
<td>&gt; €15m</td>
<td>€3m to €15m</td>
<td>Under €3m</td>
</tr>
<tr>
<td>Avg no of employees</td>
<td>&gt;250</td>
<td>50 to 250</td>
<td>Under 50</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Company Type</th>
<th>Trading, Profit &amp; Loss Account</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shareholders</td>
<td>Registrar</td>
</tr>
<tr>
<td>Public, Large Private</td>
<td>Full</td>
<td>Full</td>
</tr>
<tr>
<td>Medium Private</td>
<td>Short</td>
<td>Short</td>
</tr>
<tr>
<td>Small Private</td>
<td>Short</td>
<td>None</td>
</tr>
</tbody>
</table>

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;
  - 4th directive: Format and content.
  - 7th directive: Accounts of groups of companies, i.e. consolidated accounts.
  - 8th 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)

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.